Financial Stability Report

First Half 2011

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Financial Stability Report
First Half 2011

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Financial Stability Report
First Half 2011

ISSN: 1668-5164
Online edition

Publication date | March 2011

Published by Economic Research Deputy General Management

Central Bank of Argentina
Reconquista 266
(C1003ABF) Ciudad Autónoma de Buenos Aires
República Argentina
Phone | (54 11) 4348-3500
Fax | (54 11) 4000-1256
Web site | www.bcra.gov.ar

Contents, coordination and layout | Financial System and Capital Markets Management

Collaboration | Macroeconomic Analysis Management | Monetary Programming Management | Regulatory Research and Planning Management | Information Management | Payment Systems Management | Supervision Coordination Management

For questions or comments please contact: analisis.financiero@bcra.gov.ar

Preface

Financial stability is a state of affairs in which the financial services sector can channel the savings of the population and provide a nationwide payments system in a manner that is efficient, secure and sustainable over time. In the framework of the execution of consistent and stable macroeconomic policies, the resilience of the financial sector in the face of negative shocks serves to define the degree of approach towards a financial stability scheme.

The strong interrelationship between financial stability and sustained economic growth explains why the former is a social good that the state has to generate and protect. This is why the promotion of financial stability is one of the principal functions of most central banks.

The Central Bank of Argentina, according to article 4 of its charter, has a mandate "to supervise the sound operation of the financial market". It is the Central Bank understanding that in order to enhance the effectiveness of the policies that it undertakes its usual regulatory and supervisory powers must be complemented by a communications strategy that is transparent and accessible to the public in general.

With this purpose in mind it publishes the Financial Stability Report (FSR) that presents an overall assessment of developments in the conditions of financial stability. In the FSR the different channels of information that are available on the subject are merged, to provide the Central Bank's views on the outlook for the financial system. Furthermore, between each half-yearly issue of the FSR, the Central Bank releases a monthly Report on Banks to keep the public up to date about the more recent developments in the financial system.

According to the depth of detail that the reader requires, the FSR can be approached in two different ways. Reading the Central Bank Outlook and the Balance of Risks, together with the summary and main topics of each chapter, enables the reader to grasp the gist of the FSR. Naturally, a full reading of the FSR provides an in depth evaluation of the issues it covers, enriched by the treatment of special topics that are included in the Boxes.

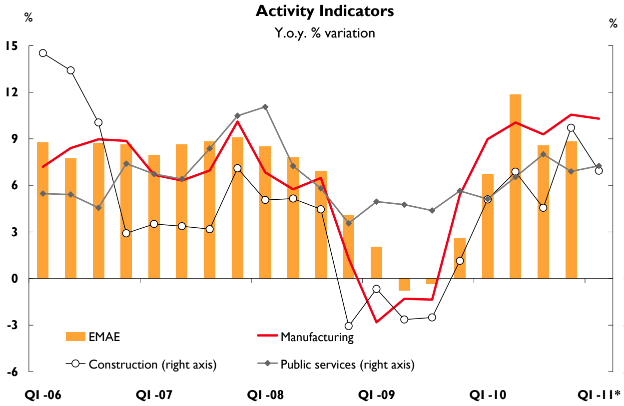
The date of publication of the next issue of the FSR will be on September 29, 2011, on the Central Bank website.

Buenos Aires, March 31, 2011

Contents

Central Bank Outlook

Chart I
Activity Indicators
Y.o.y. % variation



Source: INDEC

* Data at January

The Argentine experience during last decades and, more recently the global crisis, have demonstrated that financial stability requires both an adequate supervisory and regulatory framework aimed at regulating the degree of exposure to the risks intrinsic to the intermediation business, and policies to guide and encourage activity in the real economy, promoting the solvency of all sectors. In other words, a series of prudential regulations related to financial behavior should be complemented by a productive economy, capable of creating wealth and distributing it adequately, guaranteeing the soundness of the financial system and the viability of the economic agents interacting with it.

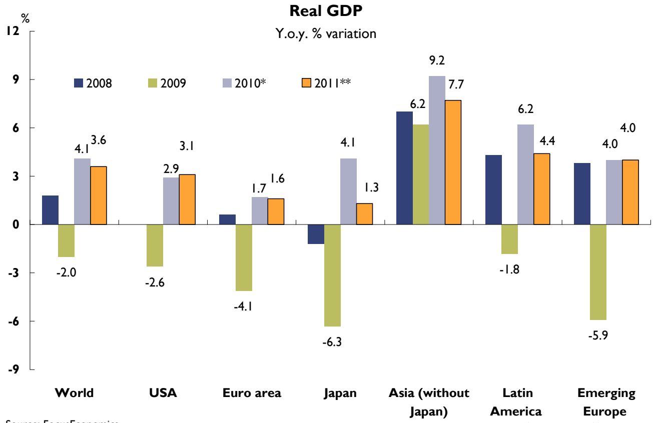
In an economy such as that of Argentina, which has been growing strongly based on the firm strengthening of the local market, high investment rates, and a context of adequate competitiveness, the monetary and financial policy of the Central Bank has been founded on seven main courses of action: 1) control of monetary aggregates to balance money supply and demand; 2) rebuilding credit channels, mainly by means of growth in lending to productive activities; 3) managed floating exchange rate; 4) accumulation of international reserves; 5) macro-prudential regulation of short-term financial flows; 6) regulation and supervision of the financial system; and 7) fostering universal access to banking services for both households and companies through the deepening of banking supply.

This integration of Central Bank actions with the rest of national economic policy observed in Argentina can also be seen in other emerging economies. In the last decade these countries implemented a series of macro-prudential policies, in many cases departing from the prevailing standard recommendations, helping to avoid the accumulation of imbalances that so often in the past led to major crises. The achievement of sounder macroeconomic conditions has allowed emerging economies to recover degrees of freedom to build up counter-cyclical strategies, showing strong pragmatism, which on the basis of financial stability targeted sustainable development in the medium term. As a result, it is these economies that are now leading economic growth, with regions expanding at two speeds. This year, developing countries face a positive economic outlook in which rising commodity prices will generate pressure on domestic markets, in some cases providing incentives for producer countries to refocus productive activities on primary goods, creating new challenges for economies in the region.

Chart 2

Real GDP

Y.o.y. % variation



Source: FocusEconomics

* estimated **forecasted

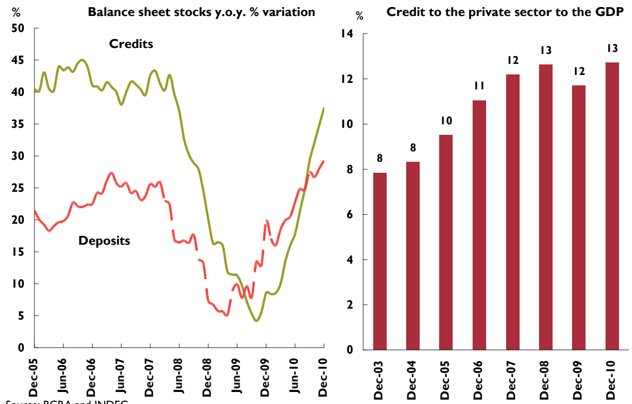
For their part, still high unemployment in developed countries, combined with their high levels of households debt, represent barriers to rising consumption, and therefore to economic activity. At the same time, concern persists regarding the fiscal situation in most industrialized nations – reflecting to a large extent the effects of the global financial crisis – and the fragility of their banking systems, to which can be added recent events related to the conflicts in the Middle East and North Africa, and the potential impact of the catastrophe in Japan. These events slowed the positive trend that was maintained in international financial markets despite the tension generated by the debt crisis in the euro zone (see Box 1), and at the start to 2011 they entered into a period of greater caution at global level.

Nevertheless, the outlook is for further global expansion in 2011, led as in 2010 by emerging countries, although growth will probably be more moderate, with the presence of various factors in the Middle East and Asian regions that could be a source of risk.

In a similar manner, in 2011 there will be a continuation of the conditions experienced over the course of 2010, when the Argentine economy definitively overcame the effects of the international crisis, recording growth in excess of 9%. In particular, consumption is once again expected to evolve positively, and investment will show appropriate dynamism. This positive outlook will strengthen the financial position of the main takers of credit, and will favor the recovery of bank financial intermediation with the private sector, as was seen in 2010.

In particular, in the second half of 2010 banks accelerated their pace of credit growth, returning to the performance seen prior to the start of the international crisis. The increase in private sector lending took place mainly in loans to companies (up 56% on an annualized -a.- basis in the second half, ending the year with a year-on-year - y.o.y. - increase of 40%), while the household loan stock also grew at a strong rate (43%a. in the second half, 33% for the year), driven in particular by credit lines aimed at consumption. Although at present the credit/GDP ratio (13%) has recovered the level observed prior to the local impact of the international crisis, this value remains relatively low, both historically and when compared with the rest of the region. If the current growth trend in private sector lending is maintained, it should be possible to recover a depth level of the financial system commensurate with the development of the Argentine economy.

Chart 3
Financial Intermediation with the Private Sector



Source: BCRA and INDEC

In this context, the Central Bank has redirected its financial policy with the aim of stimulating productive investment. Under the so-called Bicentary Productive Financing Program *"Programa de Financiamiento Productivo del Bicentenario"* the Central Bank has already held 4 auctions of funds, with a total amount allocated of $1.26 billion. Using these resources, financial entities grant loans to companies to finance investment projects for an average maturity of not less than two years at a total financial cost of an annual 9.9%. Some 100 projects have already been approved by the evaluation units at the Ministries of Industry, Economy, and Agriculture, notably in the auto parts, bio-fuels and poultry sectors, among others.

In addition, in recent months the Central Bank has implemented a series of measures to promote universal access to banking services by the population, and to increase the use of electronic means of payment, many of which have already begun to generate positive results (see Box 5). Almost 52,000 Free Universal Account (*"Cuenta Gratuita Universal"*) applications have been received since they were introduced in last November. Following new rules for lower costs for interbank transfers (whether made via Internet, ATMs or at the bank counter) there was an increase in the total number of such transactions carried out by the end of 2010. Complementing these initiatives, recently the Central Bank instructed that banks should provide immediate settlement to bank transfers made by ATMs or Internet. This measure will take effect as from the end of April for transactions in pesos (for amounts per day and per account of up to $10,000 in the case of those originating from ATMs, and up to $50,000 via internet) and as from the end of May for transactions in foreign currency (for amounts per day and per account of up to US$2,500 in the case of those originating from ATMs, and up to US$12,500 via internet). On the other hand, since the Settlement Check (*"Cheque Cancelatorio")* was introduced it has been used for totals of $87 million (almost 1,400 checks in local currency) and US$77 million (around 1,500 checks in foreign currency). This payment mechanism has facilitated house and vehicle purchase transactions, discouraging the use and movement of cash.

In line with the increase in intermediation levels, financial system operating structure also recorded growth in 2010. The total payroll in the financial system rose by 2.3% in 2010, returning to the levels seen prior to the international crisis. The number of ATMs increased 15% for the year. To encourage the geographical expansion of operating infrastructure, new rules were introduced for the opening of branches. Since 2011, when the Central Bank receives applications for the opening of branches in areas where the country is better supplied by banking services, it considers whether such requests are associated with the simultaneous opening of an equal number of branches in regions where services are less available.

In recent months a favorable change has been noted in the overall risk map of the local financial system, a development that largely reflects the positive impact of the macroeconomic context on the financial sector. Although the financial system continued to record high levels of reserves in the form of liquid assets, by the end of 2010 these had begun to decline gradually, at the same time as there was an increased channeling of resources to the private sector.

In recent months there has been a strengthening of the payment capacity of the main financial system debtors. This trend was particularly associated with the increased business levels experienced by companies and the continuous improvements in the labor market, in the context of moderate levels of indebtedness in both the corporate and household sectors. Furthermore, banks have raised their provision levels within the context of their increased profitability, a development which combined with lower non-performing levels for their portfolios, has enabled them to reach historically high coverage levels. As a result, bank credit risk has remained limited.

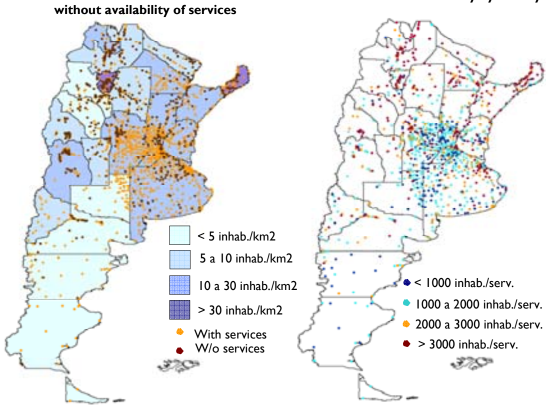
Over the course of 2010 the foreign currency mismatching faced by banks continued to decline, within the framework of existing prudential regulations intended to mitigate this potential source of vulnerability. This development, coupled with the moderate levels of exchange volatility as a result of the managed floating exchange rate regime, contributed to holding currency mismatching risk at a low level. Moderate levels of interest rate variation have contributed to a reduction in the interest rate risk faced by financial entities.

The growing share of assets with market prices in bank portfolios has led to a moderate increase in their exposure to market risk in the second half of 2010, although it continues to account for a low share of the system's risk balance. It should be noted that as from March 2011 new Central Bank regulations will come into force intended to simplify the various valuation criteria that exist for non-financial public sector and monetary regulation debt instruments. The new valuation method is more closely based on international accounting standards, with the establishing of two main

Chart 4

Infrastructure Availability for Financial Services* Provision in Argentina

Population density and localities with and without availability of services | **Level of services availability by locality**

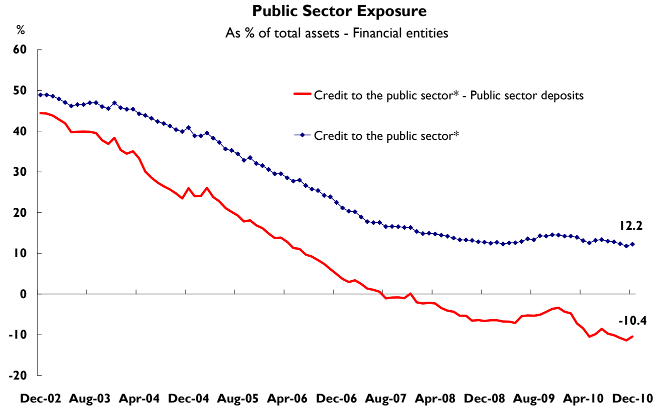


*Note: Headquarters, Head Office, Branch, Agency, Regional Office, Travelling Branch, ATM and Self-Service Terminal or Office aimed at providing specific services. Data at March 2010.
Source: BCRA e INDEC

Chart 5

Public Sector Exposure

As % of total assets - Financial entities



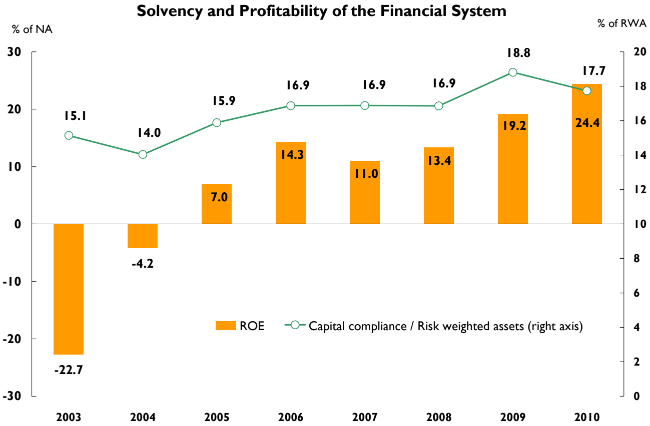
* Note: Public sector securities position (without Lebac and Nobac) + Loans to the public sector
Source: BCRA

valuation segments: fair market value, and cost plus yield, with instruments being classified according to their nature (assets with or without a market price) and by business model (trading assets or long-term investment assets).

At the same time as lending to households and the corporate sector increased, bank exposure to the public sector declined gradually over the course of both semesters of 2010, reaching historically low levels (in the order of 12% of assets). This level of exposure is in line with the average observed in the region's emerging economies. Furthermore, when considering the funding that the financial system obtains from public sector deposits, it can be seen that on a consolidated basis for its various jurisdictions, the public sector records a net creditor position in relation to the financial system equivalent to almost 11% of total bank assets.

Chart 6

Solvency and Profitability of the Financial System



Source: BCRA

Banks have continued to record high solvency indicators, a sign of their soundness situation and their potential for continued growth in the intermediation of resources for companies and households. Capital compliance was well above regulatory requirements for all bank categories, reflecting the impact of positive results for the sector. Banks continued to post improvements to their profitability during the year, reaching profits in 2010 equivalent to 24% of their net worth. This increase in profitability at a time of declining margins is a reflection of higher intermediation volumes, reduced credit risk, and the recovery in domestic financial asset prices. It should be noted that in order to strengthen financial entities solvency levels, the Central Bank recently decided to introduce a capital conservation requirement. As a result, financial institutions able to distribute profits may pay dividends only if their regulatory capital in a post dividend payment scenario remains at least 30% above the regulatory requirement. Solvency levels were held steady, despite of the profit distributions by banks during 2010.

Over the course of 2011 the domestic economy is expected to continue to expand, generating a suitable context for the financial system to continue to increase its level of financing to companies and families, maintaining a limited risk exposure and appropriate soundness indicators. This expected development within a framework of consistent macroeconomic policies, will contribute to the preservation of financial stability conditions.

I. International Context

Summary

The world economy grew in 2010 (see Chart I.1) boosted, mainly, by emerging countries; however, it slowed down as from the second half of the year. A more moderate global growth is expected for 2011, with an ongoing drive by developing regions.

Several factors imply risks to the economic growth process. The persistence of high levels of unemployment and indebtedness limits households' consumption expansion in developed economies. At the same time, concerns regarding the fiscal situation in various industrialized countries (worsened following the 2008-2009 financial crisis) and the weakness of their financial systems remain.

In the case of emerging economies, even though perspectives are favorable, the hike in commodities prices added to the pressure on domestic prices. As a consequence, the monetary policy contraction trend deepened in some countries and the reversal of fiscal stimulus measures was intensified, which could give rise to a greater slowdown in the expansion pace than expected.

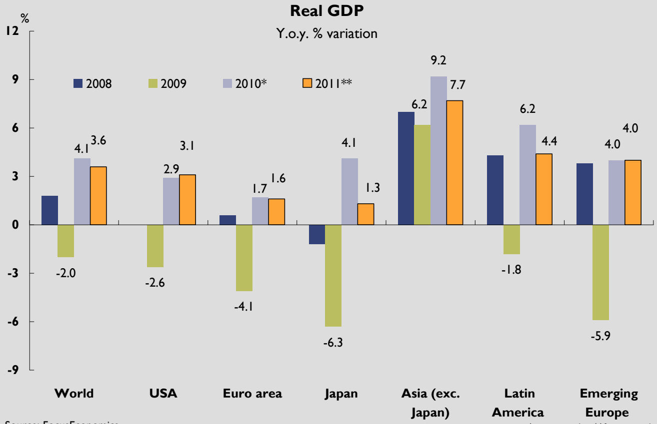
Recent conflicts in the Middle East and Northern Africa and the catastrophe in Japan raised risks regarding the consolidation of the global economic recovery. Even though these are events that are still going on, it has been anticipated that they will have an upward pressure on primary product prices and that less private spending in the third world economy (it accounts for almost 6% of the world GDP), partially offset by consumption and public investment (boosted by the reconstruction process), will give rise to recession in Japan during 2011.

International financial markets maintained a positive trend from mid-2010 to early 2011, when volatility rose again. The favorable balance over such period resulted, mostly, from some positive news in some economic indicators in the United States and the main economies in Europe, the perception of a relatively more contained situation in the Euro zone (concerned worsened recently) and the implementation of a new program to purchase sovereign bonds by the Federal Reserve. Thus, stock markets tended to improve until mid-February and the yield of long term sovereign bonds expanded (they were reduced recently) while the dollar kept a volatile pattern against the rest of the most relevant currencies (with some weakening trend).

In a context of pursuit for further yield, financial investment flows towards emerging economies accelerated over the second half of 2010; consequently, share prices improved and debt margins were cut (although this trend moderated over the first months of 2011 due to greater caution at a global level). Pressure derived from the appreciation of currencies from emerging countries against the US dollar led the authorities from several countries to announce measures to contain this phenomenon.

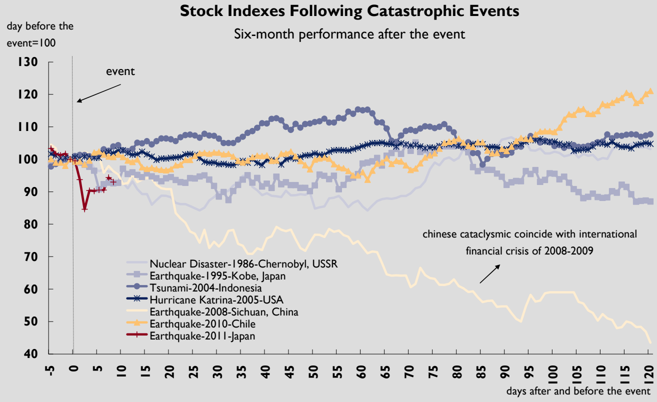
Financial systems in Latin America continued increasing the momentum of their financial intermediation activity with the private sector, in a context where economies are recovering from the impact of international financial crisis at a greater pace than other regions. Solvency and liquidity levels remain high within a framework of reduced credit risk, which is reflected in the low levels of non-performance against other emerging and developed economies. Economic growth perspectives, which are still favorable, would contribute to consolidating financial stability conditions in the region.

Chart I.1
Real GDP
Y.o.y. % variation



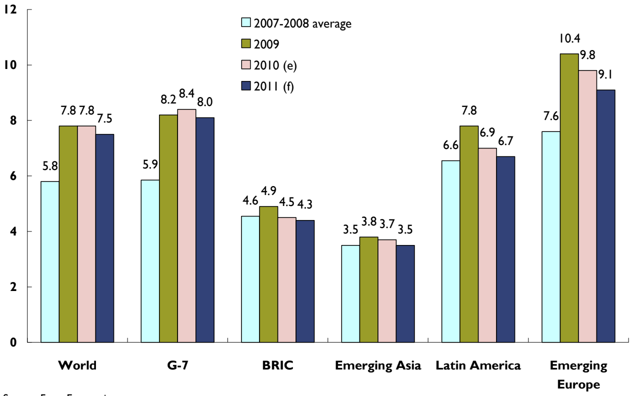
Source: FocusEconomics
* estimated **forecasted

Chart I.2
Stock Indexes Following Catastrophic Events
Six-month performance after the event



Local stock index in dollars. German index (DAX) is used as proxy in the case of Chernobyl disaster.
Source: BCRA from Bloomberg

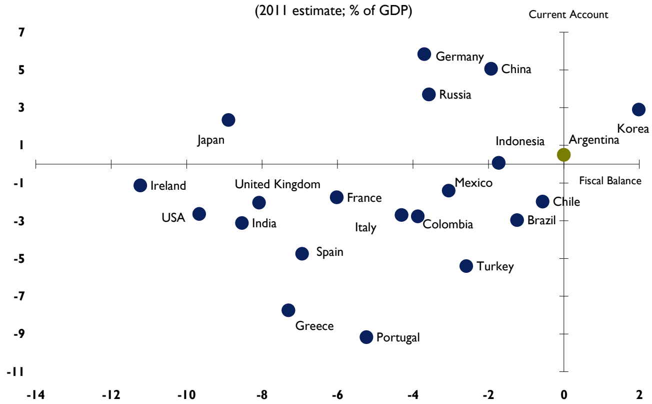
Chart I.3
Unemployment Rate



Source: FocusEconomics

(e) estimated (f) forecasted

Chart I.4
Fiscal & External Situation of Selected Economies
(2011 estimate; % of GDP)



Source: BCRA from own data for Argentina and IMF data for the rest

I.1 International context

The growth of the world economy boosted, mainly, by emerging countries, would continue moderating

World economic activity grew 4% in 2010, while, according to market[1] forecasts, there would be a 3.6% expansion this year (with a 2.5% increase for advanced countries and a 6.5% rise for emerging countries). On the other hand, international trade volumes, which grew 12% in 2010, should rise 7% this year recovering the levels recorded before the worsening of the international financial crisis.

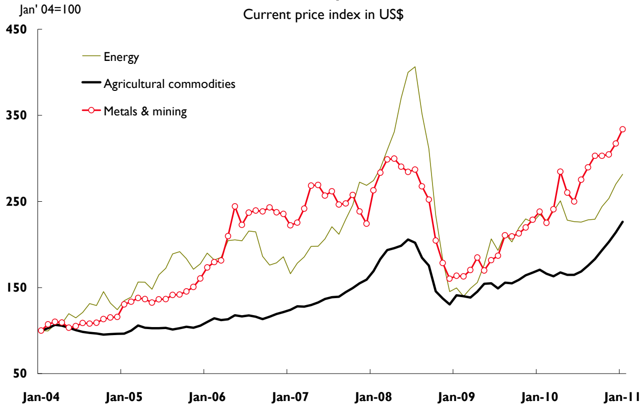
Concerns regarding the fiscal position deterioration (worsened after the 2008-2009 international crisis), and, in some cases, the weakness of financial systems in several industrialized countries remained over the second half of 2010. In this regard, effects derived from the sovereign insolvency risk and the impact on financial systems of some countries continue being one of the major threats to the recovery process. In addition, the labor market in most advanced economies remained weak and, given the high levels of households' indebtedness, private consumption expansion would continue limited, conditioning these countries' improvement capacity in 2011 (see Chart I.3).

Liquidity expansion measures were intensified and a fiscal stimulus plan was approved in the United States in the second half of 2010, in a context of moderate economic growth, high unemployment levels and low inflation. Recently, and following a series of improvements in some economic indicators, the government announced some budget cuts for 2012 in order to contain fiscal deterioration (see Chart I.4), although, according to forecasts, they will not have a relevant effect[2]. Meanwhile, a heterogeneous macroeconomic performance in different countries in the Euro area has been observed, with Germany consolidating as the main activity driver (with an evolution even better than expected in previous months). While the European Central Bank continued providing markets with liquidity, the debate around the regional harmonization of fiscal criteria still remained, even though there are doubts about the effectiveness of these measures in a context where there still exists a problem in terms of competitiveness spreads among the member countries of the Union. The Euro area is facing significant institutional challenges while the generalized implementation of fiscal adjustment plans affects growth perspectives. Finally, in the case of the

[1] Analysts' consensus according to data gathered by FocusEconomics.
[2] Spending reduction was concentrated in minor items against total spending.

aggregate of emerging countries, economic activity also slowed down over the second half of 2010, with less growth of foreign demand, less contribution by investment and reversal of stimulus policies.

Chart I.5
Commodity Prices
Current price index in US$

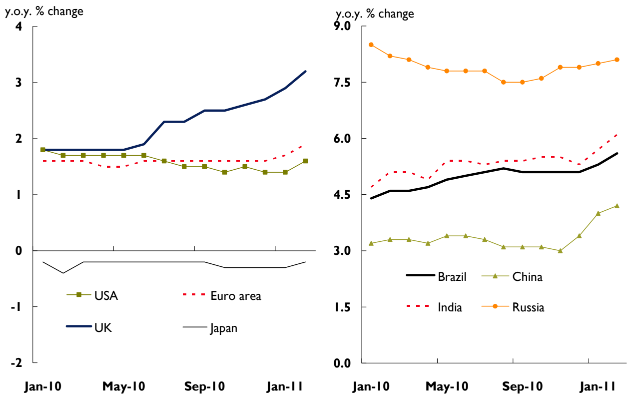


Source: World Bank

During the second half of 2010 and the first months of 2011, commodity prices kept exhibiting a rising trend, which meant greater upward pressure on the general price level (more marked in emerging economies). Recent social and political conflicts in the Middle East and in Northern Africa[3] added to weather problems in agricultural regions, in a context of sustained demand and the increasing positions of non-trading agents[4] in markets of derivatives (in a context of high liquidity at an international level). Thus, by the end of February, agricultural and industrial commodity prices stood at 44% and 51% above prices observed a year ago and exceeded the maximum values recorded by mid-2008 (see Chart I.5). On the other hand, although oil price stands at 15.7% below the peak observed in July 2008, it exhibited a sharp rise in recent months and, in February, it amounted to 52% above the value recorded a year ago.

The Commodity Price Index (IPMP) prepared by the BCRA, which gathers international prices of the most relevant primary products among Argentine exports, grew 7% on average during 2010, while the year-on-year variation between ends was 22%. Until February 2011, the index evidenced a 5.8% growth in year-to-date terms and it has been forecasted to remain high during the first half of the year (subject to climate problems and sustained demand which would become more intense with Japan's reconstruction process).

Chart I.6
2011's Average Inflation Expectations of Selected Countries



Source: FocusEconomics

Even though inflation remained contained in 2010 at a global level, the growing trend observed in commodity prices made price changes expectations for 2011 be corrected upwards. In the case of advanced economies, inflations stands still at low levels; however, in some cases, it exceeds (and even doubles) implicit or explicit targets of monetary authorities. Emerging countries exhibited a higher increase in prices (both observed and expected), (see Chart I.6), which led –in some cases- to an intense use of fiscal and monetary measures of a contraction nature.

[3] Category that would include agents conducting transactions with speculation and arbitration.
[4] Conflicts like those of Egypt and Libya boosted international prices of primary products (given the relevance in the production and transport of oil in some countries and considering that some nations are large food net importers).

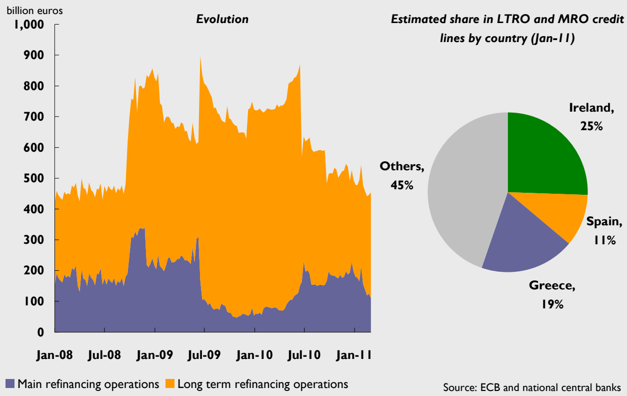
Box 1 / Crisis in the Euro Area and Policy Responses

Continuous tensions in sovereign debt markets in the Euro area have led the European Central Bank (ECB) to postpone the implementation of the exit strategy for its stimulus policies, while authorities continue working on containing the current crisis. Liquidity lines of an extraordinary nature were kept, which were expected to be over by late 2010 and sovereign bonds continued being purchased, while –more recently- announcements regarding the permanent European Stabilization Mechanism were made. Together with debt issues that could be complied with by early 2011, policy responses allowed curbing increasing concerns regarding the Euro area; however, by late March the debt deteriorated again and the existence of new volatility episodes during this year may not be ruled out

In view of the debt crisis in the Euro area (led initially by Greece), authorities in the region launched together with the IMF, the European Stabilization Mechanism in May 2010 to move up to €750 billion[5]. In this context, the European Financial Stabilization Mechanism (EFSM) of the European Union (EU) was created for up to €60 billion as well as the European Financial Stability Facility (EFSF), an intergovernmental vehicle of member states, for up to €440 billion[6]. As anticipated, both the EFSM and the EFSF (in force until 2013) would obtain funds in markets to help member states of the Euro zone having difficulties to meet their financing needs within the framework of joint programs of the EU-IMF (subject to conditionality clauses). The IMF committed itself to contribute with an amount equivalent to, at least, half of contributions by the EU to each program (which means contributions for up to €250 billion). The role of the ECB adds to these funds; the institution announced it would start purchasing debt securities (apart from continuing with extraordinary lines of liquidity provision and other measures). At first, this set of announcements was not enough to ease the deterioration observed in markets of sovereign debt[7]. In addition, by late November 2010, the average sovereign spread of countries that were facing pressure in debt markets started recording new maximums (generating further uncertainty globally, which ended up having pressure on financial asset prices of emerging economies). Considering the permanent concerns observed regarding the situation of countries like Ireland (which finally requested aid from the UE-IMF in November), Portugal, and Spain (generating significant doubts regarding the suitability of the financing sum of the current stabilization mechanisms), tensions in Europe's financial markets intensified by the end of last year. In this context, authorities were forced to review the policies applied so far.

Chart B.1.1

ECB's Liquidity Lines



Source: ECB and national central banks

Taking into account that in some cases (Ireland, Spain) tensions are strongly related to the perception regarding the situation of financial entities (and the cost associated to their stabilization)[8], part of the measures implemented were directly aimed at this sector. For example, with respect to banks' solvency, from the package of up to €85 billion agreed upon with Ireland[9], it was agreed that €35 billion would be destined for the financial system (banks' recapitalization and contingent support)[10]. On the other hand, concerns regarding funding of financial entities from countries whose debt is under pressure led the monetary authority to start delaying the gradual removal of some extraordinary measures. Thus, in the meeting

[5] This was accompanied by commitments to make additional efforts aimed at fiscal consolidation and the implementation of structural reforms in economies whose debt was suffering from more deterioration in markets.

[6] In the case of EFSF, member countries guarantee transactions. Since not all member countries have an AAA rating (target rating for issues), in practice, the effective financing capacity of the EFSF amounts to €250 billion. The EFSM and the EFSF were funded in markets for the first time in January 2011, for €5 billion each (to finance Ireland).

[7] See Box on "Vulnerable Economies in the Euro Zone and Situation of International Markets" in the Financial Stability Report corresponding to the second half of 2010.

[8] Publishing financial entities' stress tests was an attempt to advance in terms of transparency in July 2010.

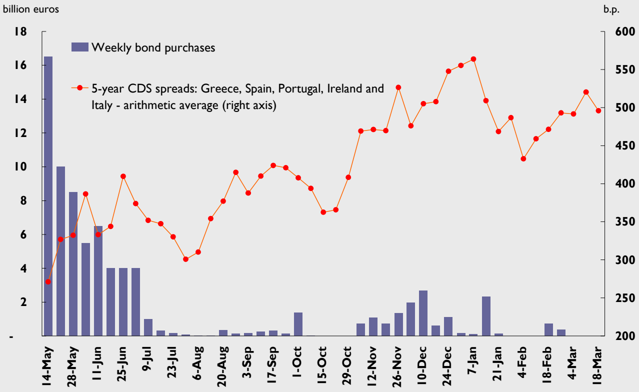
[9] The amount agreed upon to provide aid to Greece in May totaled €110 billion (with €45 billion to be paid in 2010).

[10] This was accompanied by measures taken by local authorities in every country. Thus, Spain, for example, announced new solvency requirements for financial entities so that banks would recapitalize themselves (entities with capital deficit as per the new requirements have time until September to obtain new contributions). In addition, banks were asked for information about their exposure to sectors affected (housing and construction).

held in early December by the ECB, it was decided to keep long term refinancing transactions with full allocation[11] (highly focused on economies whose sovereign debt has deteriorated more; see Chart B.1.1) which, initially, had been forecasted to be suspended by the end of last year. Finally, by mid-March, the methodology for new stress tests for banks whose results will be published by the end of June was informed.

Chart B.I.2

ECB's Weekly Purchases of Sovereign Bonds and CDS Spreads



Source: ECB and Reuters

Regarding sovereign bonds purchases by the ECB, even though there are mixed opinions in such institution vis-à-vis their continuity, they were kept. Furthermore, the amounts implied changed in accordance with the evolution of the risk perceived (see Chart B.1.2). While purchases intensified in November-December (although the levels observed when the program was launched in May were not reached), they were interrupted[12] by late January and early February (being resumed by the end of March).

In terms of the instruments to safeguard stability in the future, in December, the members of the EU agreed to reform the Treaty of Lisbon to set a procedure that will become effective as from June 2013 and a document with the conditions of the (permanent) EFSM was published in March; such instrument will have an effective financing capacity of €500 billion[13] [14]. Aid will be formalized through financing (which will have preferential treatment over the remaining creditors, except for the IMF); however, in some exceptional cases, bond purchases may be conducted in primary markets[15]. On the other hand, new indebtedness for terms exceeding one year of countries pertaining to the Euro zone as from 2013, would include collective action clauses to facilitate negotiation between debtors and creditors in case of restructuring. Even though the private sector is expected to be involved in all cases of debt crisis resolution in the future, its role would continue being managed on a case by case basis based on a debt sustainability analysis (and not through automatic mechanisms).

Despite financial authorities signs with respect to their willingness to prevent the situation from affecting the future of the euro and, even though some of the economies that are under higher pressure could deal easily with the agenda of issues of January, more recently (considering the resignation of Portugal's Prime Minister and new rating cuts), debt markets deteriorated again. Since different risk factors that could affect the financial stability of the region remain present, the fact that the situation in Europe may generate new volatility episodes in international markets even affecting appetite for assets of emerging economies may not be ruled out. Among these risk factors (which are all interrelated), the following should be highlighted: the high probability that managing fiscal problems could have an impact on growth, new complications related to accessing financing by economies in a more difficult situation (with potential requests of bailouts or even restructuring of liabilities), doubts regarding solvency and liquidity (with considerable reliance on wholesale funding) of financial entities and the possibility that there could be coordination problems among national authorities in view of a renewed deterioration in the markets.

---

[11] Known as LTROs. Transactions at 6 and 12 months introduced within the framework of the 2008-2009 international financial crisis were already interrupted. At present, transactions with full allocation at terms of a week, and 1 and 3 months are still carried out.

[12] With over €77.5 billion accumulated in purchases through the Securities Market Program that started in May 2010 (purchases are sterilized by deposits by financial entities with the ECB); by mid-December, it was decided that the ECB would be recapitalized until practically doubling its capital.

[13] The double of the effective capacity of the EFSF. The amount will be reviewed regularly (with a frequency not exceeding 5 years). The decision to provide aid to a country must be taken unanimously and shall imply strict conditionality of a macroeconomic adjustment program. The involvement of the IMF will be sought to complement the aid given FMI.

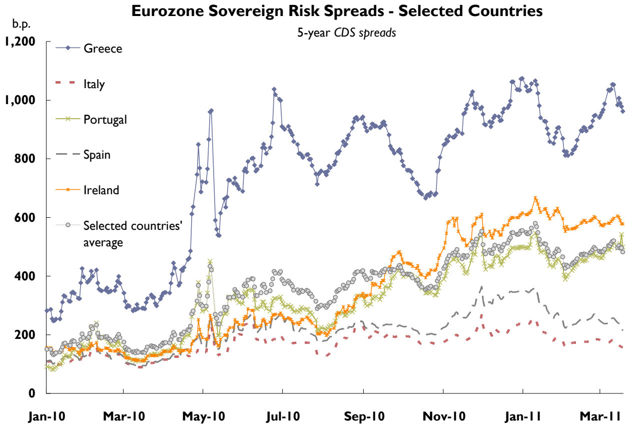
[14] This takes place within the framework of the Euro Pact, which includes, among other aspects, commitments aimed at harmonizing public finances.

[15] However, tools used may be changed.

Chart I.7

Eurozone Sovereign Risk Spreads - Selected Countries

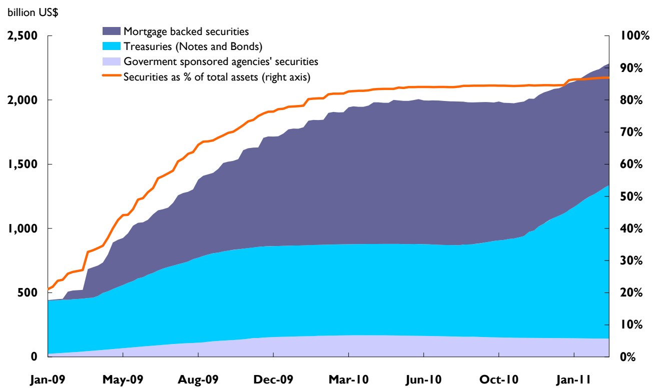
5-year *CDS spreads*



Source: Bloomberg

Chart I.8

Federal Reserve's Securities Holdings Evolution



Source: Federal Reserve

Thus, price acceleration in China and Brazil (Argentina's main trading partners) forced authorities to implement several anticyclical policies since late 2010, which, if deepened, could moderate the economic expansion forecasted even more.

The rise in the oil price associated with conflicts in the Middle East and the Northern Africa could generate further pressure on the hike in prices, particularly in the case of food and energy, possibly giving rise to an early adjustment of the monetary policy in industrialized economies (as long as the economic recovery is considered to be sound enough), with a potential effect on global growth.

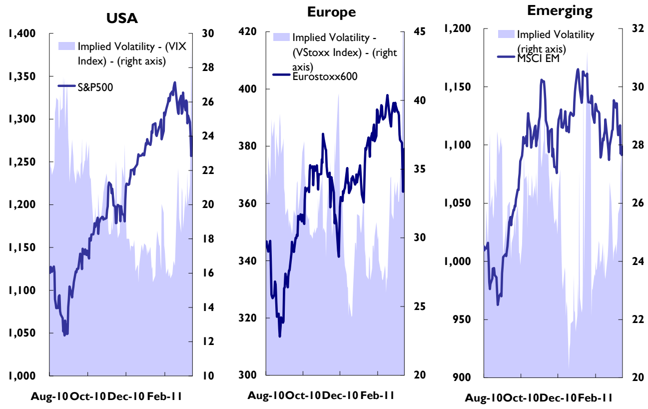
In addition, even though it is still difficult to calculate the impact of Japan's catastrophe on the world expansion, it has been estimated that the earthquake will have an adverse effect on the activity level of the third largest national economy of the world (accounting for 6% of GDP). Given the volume of international trade in the country, the slowdown or even recession in Japan would influence on its main trading partners (and, indirectly, but to a lesser extent, it will impact on other countries, like Argentina) reducing volumes traded and adding more volatility on prices negotiated of some commodities (wheat and oil mainly). The financial channel will be affected as a result of the significant losses suffered by insurance companies that are more exposed to Japan and by fund repatriation (which would continue in the short term). Considering a more medium-term standpoint, the reconstruction process will boost commodity prices, especially, industrial ones while the rise of public spending is expected to deteriorate Japan's fiscal position even more affecting the dynamics of its debt (to date, its public debt, exceeds 200% of GDP, although most of it is in yens and financed locally which makes its refinancing[16] easy).

All in all, the international context reflects ongoing economic growth with the presence of some factors that could condition its evolution. Industrialized countries would continue recording a weak recovery, high unemployment levels and fiscal problems. On the other hand, and with more favorable macroeconomic perspectives, emerging countries' authorities could require the application of measures to face growing inflations rates and greater short-term capital flows.

Despite the tension in vulnerable countries in Europe, another round of quantitative expansion in the United States enhanced the search for yields

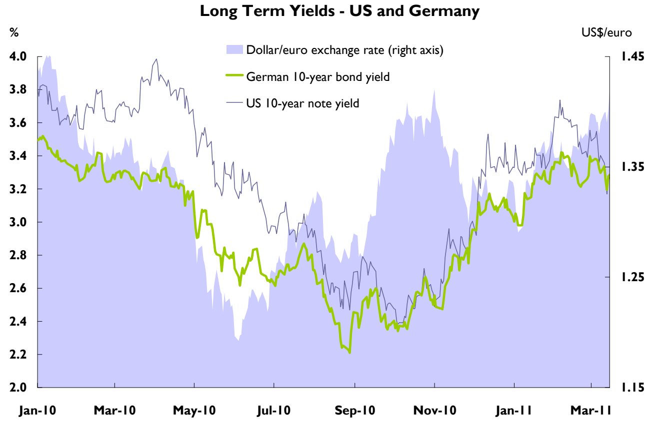
[16] Meanwhile, the Asian country is recording an international creditor net position exceeding 50% of its GDP.

Chart I.9
Stock Indexes in Dollars and Implied Volatility



Source: Bloomberg

Chart I.10
Long Term Yields - US and Germany



Source: Bloomberg

The debt crisis in the Euro area (and the possibility of contagion) continued imparting volatility in financial markets (see Chart I.7), with average spreads of Greece, Ireland, Portugal, Spain and Italy recording new maximums by the end of the year[17]. By mid-January, the European case started being perceived as more contained in relative terms (see Box 1), although the region –and some countries in particular- remains being a focus of uncertainty (recently, concerns worsened regarding countries like Portugal, Ireland and Greece). The situation in the United States, especially over the last months of 2010, brought about a more favorable context with the launch of the new round of monetary quantitative expansion with security purchases of up to US$600 billion (see Chart I.8). Good seasons of balance sheets and more recently, better economic activity indicators than expected (easing fears of a potential new fall that prevailed until the third quarter of 2010) added to this. However, growing tensions in the Middle East and Northern Africa, with an impact on the price of oil, and Japan's catastrophe (see Box 2), reintroduced a context of greater caution in financial markets during 2011.

Stock exchange indexes in the United States managed to capitalize significant advances between September and mid-February (see Chart I.9)[18], while expected volatility decreased down to values that had not been recorded since the time prior to the worsening of the crisis in the Euro area. Next, uncertainty generated by the situation in Japan meant recording a less defined trend. In Europe, a similar behavior pattern was observed albeit with greater ups and downs. On the other hand, long term yields of sovereign bonds of the United States and Germany reversed, by the end of the year, the trend to the sharp contraction they had evidenced during most of 2010.

Despite more treasuries purchases were announced, returns at 10 years corresponding to instruments of the American Treasury expanded by almost 100 bp since early November until early February accompanying the context of relative improvement in economic perspectives (see Chart I.10). Greater caution prevailing in February meant that yields would later correct part of such expansion. In contrast, short term yields would

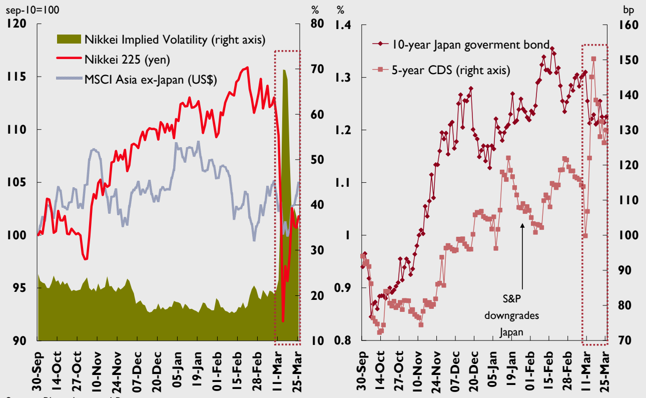
[17] Ireland finally requested for a bailout in November and there are speculations that some other country might have to do this soon while there are concerns about the situation of financial entities in the region remain.
[18] S&P 500 improved 22% in the second half of 2010 and even though it has been recording considerable volatility since February, it has evidenced a positive balance so far this year.

Box 2 / Japan's Catastrophe and Impact on Financial Markets

Following the earthquake and the tsunami that hit Japan in March, a framework of greater uncertainty was generated with direct impact on Japanese markets. Japan's authorities implemented a set of measures to contain the situation (including measures to curb the yen appreciation). With respect to international financial markets, there was an initial negative effect, even though exchange rates tended to recover soon. Although the situation has not affected financial stability globally yet, there exists a context of caution given that the nuclear emergency remains unsolved (while this episode adds to other risk factors such as the sociopolitical crisis in the Middle East and the situation in the Euro area)

Chart B.2.1

Japanese Equity and Fixed Income Markets



Source: Bloomberg and Reuters

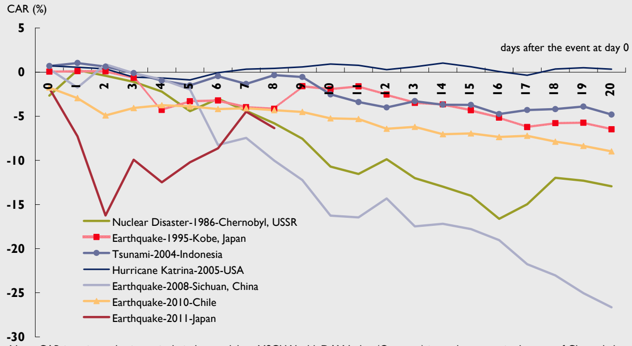
The earthquake and the tsunami that occurred in Japan on March 11th followed by a nuclear emergency derived from problems in the Fukushima plant generated a state of alert which also affected the country's financial markets. In view of a catastrophe whose economic impact is yet uncertain (so far the reconstruction cost has been estimated between 4%-6% of Japan's GDP in 2010[19]), and to prevent financial stability from being affected, Japanese authorities implemented a set of policy measures. Thus, the Bank of Japan (BJ) injected more liquidity in financial markets, expanded its asset-purchase program and started to intervene in currency markets.

In terms of variable income markets, the Nikkei 225 measured in domestic currency fell over 15% in the first rounds following the earthquake (although it subsequently corrected, this decline by almost half; see Chart B.2.1), while in the rest of Asia the deterioration observed was more limited[20]. On the other hand, the volatility expected for the Nikkei (measured through the VXJ index) soared[21], standing currently at levels that almost double those of the first two months. It should be highlighted that, as per the analysis of impact on stock exchange indexes of other catastrophe events in the last decades, the initial negative effect of Japan's current case was very marked in relative terms (see Charts B.2.2 and I.2). Meanwhile, several studies which analyze this kind of events in historical terms, find that the initial effect tends to be reversed quickly.

Chart B.2.2

Short-Term Impact of Catastrophic Events on Equities

Cumulative abnormal return (CAR) - US$ indexes



Note: CAR is estimated using a single-index model on MSCI World. DAX Index (Germany) is used as proxy in the case of Chernobyl disaster.
Source: BCRA from Bloomberg

Unlike shares, prices of sovereign bonds did not evidence relevant changes in a context characterized by the unexpected announcement of an expansion of purchases of assets by the BJ in order to prevent companies' cost of financing from being particularly affected[22]. However, sovereign CDS spreads of Japan –less liquid- tended to expand given that the country (with a growing fiscal deficit and a high debt burden[23]) could potentially face more restrictive conditions to finance itself. On the other

---

[19] As per the World Bank (over US$200 billion) and the Japanese government (more than US$300 billion) forecasts. This would imply a cost that almost doubles that of the Kobe earthquake (1995). How reconstruction costs will be financed has not been specified yet.

[20] The Asian MSCI excluding Japan accumulated a 4% decline (measured in dollars) in the first days following the earthquake, although by late March it was already at levels similar to those observed before the tragedy.

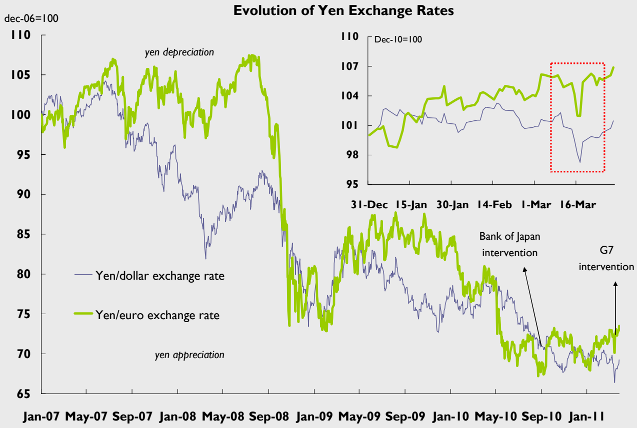
[21] The peak marked by the VXJ was higher than that of 2001 after the attack to the Twin Towers but lower than the maximums counted during the 2008-2009 international financial crisis.

[22] The amount of the Asset-Purchase Program increased by ¥5 trillion up to a total of ¥40 trillion. Additional purchases would include sovereign bonds and treasury bills as well as considerable amounts of commercial instruments and corporate bonds and would be carried out until June 2012.

[23] The public debt of Japan's Treasury exceeds GDP by 200% (currently one of the highest levels in the world although it is mainly a debt in yens and the investment base is primarily local).

hand, in a context where there were speculations regarding the possibility of significant capital repatriation by companies (insurance companies, etc.) to face the costs of the catastrophe, generating a sharp yen appreciation (in line with what happened after the earthquake of 1995), the Japanese currency revaluated over 5% against the dollar and more than 3% against the euro. Taking into account these pressures (with a potential negative effect on the level of economic activity depending on its impact on exports), the BJ intensified its intervention in the foreign exchange market, which was later reinforced by the measures taken by the G-7 through the ECB (in the first coordinated measure to stabilize the currency since the end of the '90s). Thus, the yen quickly returned to values similar to those observed prior to March 11th (see Chart B.2.3).

Chart B.2.3
Evolution of Yen Exchange Rates



Source: Bloomberg

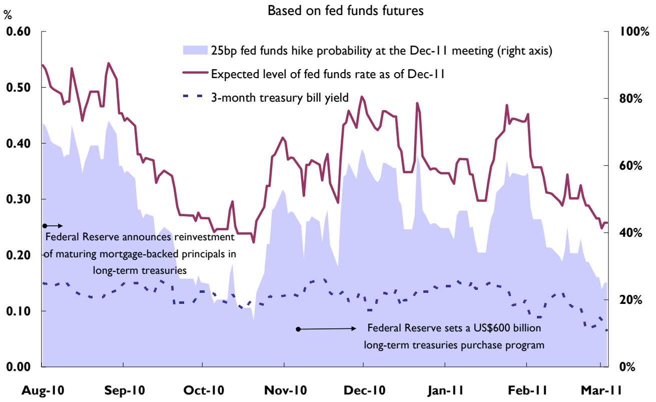
Concerning international markets, the situation in Japan accentuated the context of growing uncertainty observed since February (resulting from conflicts in the Middle East and Northern Africa). Thus, during the first rounds after the earthquake and the tsunami, a clear negative effect was detected with a fall of prices of assets with a higher relative risk (variable income instruments of developed economies, financial assets of emerging economies) and an increase in its expected volatility[24] was recorded, accompanied by the search for protection in specific instruments (Treasuries of the United States and gold). In addition, a particular deterioration in the price of shares of specific sectors, such as that of insurance[25], was observed. However, the deterioration for most prices in the United States, Europe and the main emerging economies was not extreme (with a limited impact compared to, for example, the levels recorded in the 2008-2009 international financial crisis) while a significant rebound in prices was observed recently offsetting, in many cases, the initial falls.

Although financial markets have so far shown some strength regarding the situation in Japan, it is an event that could still be developing (the nuclear emergency and fears about the existing high levels of radiation persist) and so a cautious context is expected to remain. The uncertainty generated adds to that coming from other risk factors (evolution of the debt crisis in the Euro area, situation in the Middle East –with effect on oil- impact on the economic activity level of policy response in view of higher inflation pressures in large emerging economies –like China-) which may potentially end up conditioning the evolution of economic activity and the behavior of investors globally. In the medium term, once the reconstruction process in Japan has started and with more definitions of its costs and financing method, the impact on debt markets may be assessed (in terms of yields of the Japanese debt and the availability of funds in international markets).

[24] The American VIX (considered as an approach to appetite for risk at an international level) went from 20% to almost 30%. However, this level is way below the peaks observed in 2008-2009 (80%).

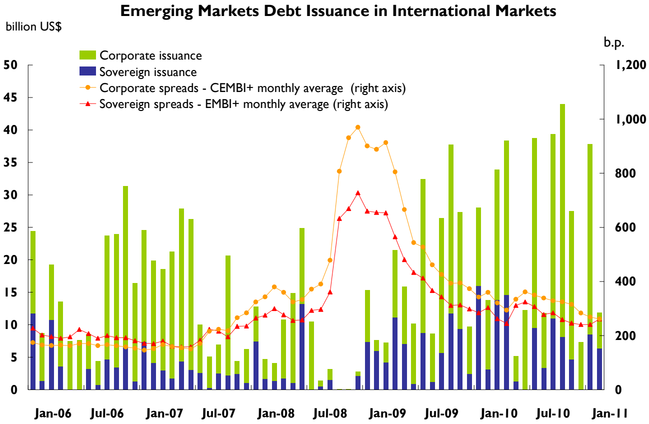
[25] Although it has been estimated that insurance companies outside Japan did not have much exposure to catastrophe risks in such country (and that most costs related to the latest catastrophe will be covered by a Japanese partly state-owned reinsurance company), shares pertaining to the largest reinsurers globally fell more than 10% in the first rounds following the episode (they later corrected most of such fall).

Chart I.11
US Monetary Policy Expectations
Based on fed funds futures



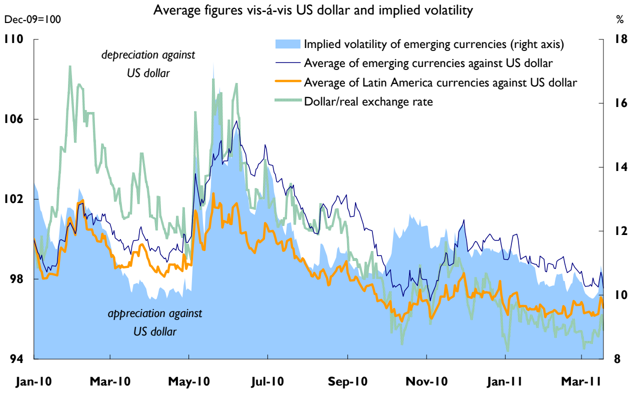
Source Bloomberg and Federal Reserve

Chart I.12
Emerging Markets Debt Issuance in International Markets



Source: Bloomberg

Chart I.13
Emerging Markets Currencies
Average figures vis-á-vis US dollar and implied volatility



Source: Bloomberg

continue at almost null levels as long as chances for the United States to start increasing its benchmark interest rate this year remain uncertain (see Chart I.11). In this regard, the market's reaction once progress has been made on the exit strategy of monetary stimulus policies will depend on how suitable the context to start this process is (if the start were considered premature, it could have a negative effect on appetite for risk at a global level).

The US dollar has exhibited a volatile performance pattern since mid-2010, even though a trend to its weakening against the main currencies[26] prevailed. Since mid-2010, the US dollar has accumulated a depreciation exceeding 15% against the euro, in a context where speculative positions against the European currency are declining while expectations that the European Central Bank may lead the movement towards a context of higher interest rates have strengthened. Even though forecasts regarding the dollar/euro exchange rate for 2011 are getting closer to a level of US$/€1.40, the persistence of macroeconomic imbalances in advanced economies will continue generating tension in the relation between their currencies.

Financial assets of emerging countries tended to appreciate with recent profit-taking

Prices of shares in emerging economies kept, mainly, a positive trend until early 2011 (the aggregate of emerging countries, and, particularly, Latin America ended the second half of 2010 with yields in dollars of almost 25%), accompanying the growing flows aimed at this kind of assets. However, in a context of greater volatility expected and with portfolio flows exhibiting a changing trend, some profit taking has been observed so far this year (with 5% declines).

Although with ups and downs, emerging sovereign debt spreads on benchmark bonds of the American Treasury kept, for the aggregate, a falling trend during the second half of 2010 (see Chart I.12), while, since late January (in a context of greater caution), spreads started to expand[27]. This performance pattern was accompanied by spreads of the Latin American debt. In this context, a significant upturn of debt issues by emerging economies agents in international markets was observed during the second

---

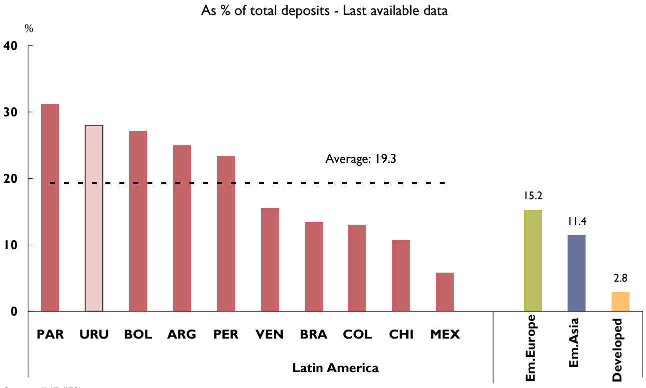
[26] In contexts of greater caution, a temporary strengthening of the US dollar was observed in August (concerns about the level of global growth and due to the situation in the Euro zone) and in November (crisis in Ireland, tensions between North and South Korea).
[27] Sovereign bond yields in domestic currency also were cut between July and October 2010, a trend that was later reversed.

half of 2010, mainly accounted for by issues by the corporate sector[28] (see Box 3).

In a context of search for higher yields and with growing capital inflows, currencies of emerging economies tended to appreciate against the dollar between June and November (See Chart I.13). Thus, once the new round to purchase sovereign bonds in the United States was launched, several countries started to announce measures to contain the appreciation of their currencies29. The situation of greater caution prevailing at the beginning of 2011 allowed curbing the appreciation of currencies from emerging countries. Nevertheless, in the case of Latin America an appreciation exceeding, on average, 6% against the dollar was observed on average since late June (8% in the case of Brazil's currency).

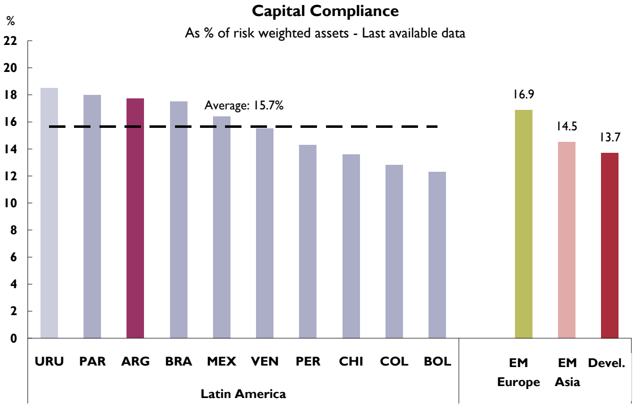
Despite lower strength in quotations over the last months, mainly positive expectations are held for financial instruments from emerging economies for this year so long as no significant changes are evidenced in appetite for risk. Given that there are several focus of tensions at a global level (uncertainty regarding the effects of Japan's tragedy, the situation in the Middle East, and the debt crisis in Europe) the fact that new episodes of growing volatility may be observed is not ruled out.

Chart I.14
Liquid Assets[1]
As % of total deposits - Last available data



Source: IMF (IFS)
1/ Note: (Cash in banks + Deposits in the Central Bank)

Chart I.15
Capital Compliance
As % of risk weighted assets - Last available data



Source: IMF

I.2 Latin American bank systems

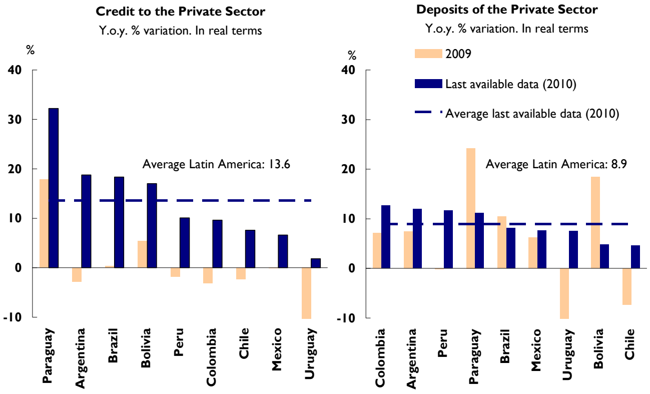
Financial intermediation activity of banks with the private sector exhibited renewed momentum in the region

Even though there still exist factors generating volatility in international financial markets, which lead to maintaining some caution, Latin American financial systems continued exhibiting a sound position in a context where economies remained recovering from the effects of the international crisis at a better pace than that of other regions. In this regard, sound macroeconomic and financial fundamentals of countries within the region coupled with a suitable management of monetary policy instruments allowed keeping high liquidity and solvency levels, above those of other emerging and developing regions (see Charts I.14 and I.15).

[28] For the sovereign debt, it should be highlighted that during the second half of the year, there were several issues in domestic currency (accounting for over 10% of the total issued for sovereign bonds in the second half of the year). On the other hand, investment funds specialized in debt instruments evidenced record inflows in 2010, with high weighting of flows to those investing in bonds in domestic currency.
[29] This generated fears of a "currency war" breaking out.

Chart I.16

Financial Intermediation. Latin America

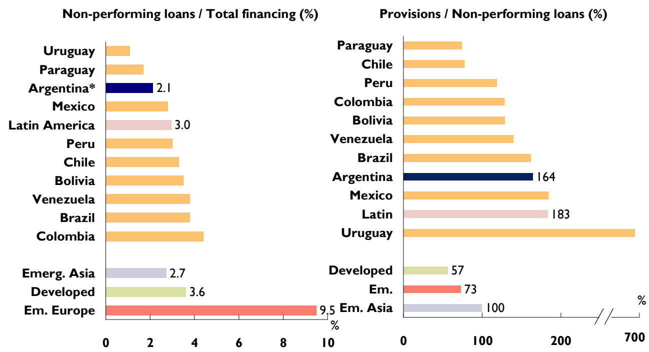


Source: FMI

Chart I.17

Non-Performing Loans and Provision

Last available data



*Note: Private sector non-performing loans as percentage of total private sector financing

Source: FMI

In 2010, Latin American countries received significant capital inflows which allowed increasing liquidity in domestic markets and easing, to some extent, conditions to access funding. These flows imply a significant risk due to their temporary nature and may trigger a destabilizing effect (for example, in the foreign exchange market) if they were to reverse abruptly as in mid-2008. In order to manage this risk, countries in the region have been proactively implementing measures aimed at mitigating potential effects derived from capital inflows on financial and macroeconomic stability[30].

Financial intermediation activity with the private sector continued recovering. Following the relative minimum values observed by the end of 2009, the expansion pace of credit to the private sector increased significantly in almost all countries in the region in 2010 (see Chart I.16). Similarly, private sectors deposits in general exhibited a greater growth level than the one recorded in 2009.

A decrease in credit risk faced by Latin American financial systems was recorded in 2010 which, thus, continued at limited levels both from a historical standpoint and against other emerging regions (see Chart I.17). The high coverage ratio of non-performing loans by provisions continued reflecting the strong equity positions of banks in Latin America against credit risk.

The fast recovery of economies in the region in 2010, together with the soundness of financial and macroeconomic fundamentals allow forecasting that financial intermediation activity of Latin American banks with the private sector would continue exhibiting sustained momentum in 2011.

[30] Among these measures, conventional and macro-prudential policies may be mentioned: sterilized foreign exchange interventions (mirrored in a substantial increase in international reserves), taxes on capital income, limits to foreign currency reserve position, increase in minimum reserve requirement, and release of domestic investments abroad, among others.

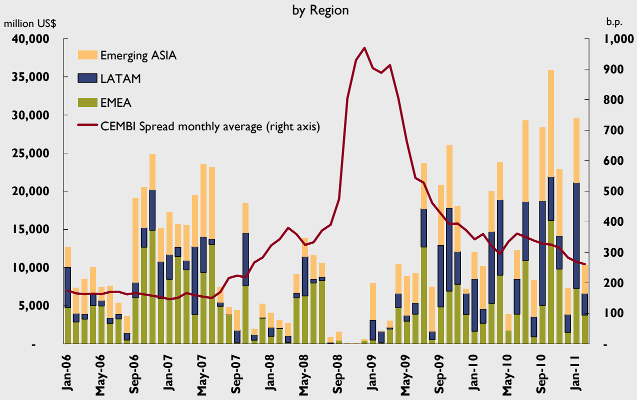
Box 3 / Corporate Debt Issues of Emerging Economies in International Markets

During the second half of 2010, the boost of corporate debt issues of emerging economies in international markets continued, ending the year with a total amount of transactions exceeding the figure observed in years prior to the international crisis. This access to new financing (which takes place within the framework of a growing inflow of capitals in emerging countries, with domestic currencies evidencing appreciation pressure) includes companies in Latin America, particularly Brazil's corporate issues. In the case of Argentina, with the sovereign debt swap closed, an incipient return of companies to international markets can be observed although the relative importance of the amounts involved is less than that of other economies in the region

Chart B.3.1

Emerging Market's Corporate Debt Issuance in International Markets

by Region



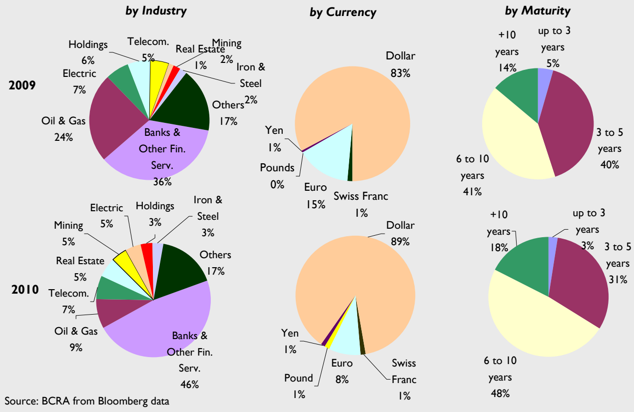
Source: BCRA from Bloomberg data

In a context marked by greater relative soundness of macro fundamentals of emerging economies and the sustained search for more attractive yields in the case of developed economies, debt issues by companies from emerging economies in international markets kept a clearly positive trend (see Chart B.3.1). In the second half of 2010, companies from emerging economies issued debt in international markets for US$132 billion[31], with a six-month rise of 60% and a y.o.y. improvement close to 30%. Thus, the year 2010 ended with transactions of this kind for almost US$215 billion, way above the levels observed prior to the international crisis (in 2006 and 2007, this type of issues amounted to about US$150 billion per year on average).

[31] Statistics prepared based on information from Bloomberg and Reuters. They correspond to transactions conducted (totally or partially) in international markets. This is gross funding, without any correction for fund allocation, which implies the maturity of the pre-existing debt.

Chart B.3.2

Emerging Market's Debt Corporate Issuance



Source: BCRA from Bloomberg data

This improvement took place in a context with falling yields for corporate bonds from emerging countries in dollars, although spreads are above the values observed prior to the crisis[32]. Issues in dollars accounted for almost 90% of financing obtained by companies in 2010, a weighting higher than that of previous years[33]. This accompanies the improvement in the percentage accounted for by issues of Latin America and Emerging Asia following the 2008-2009 crisis, to the detriment of those of Emerging Europe, the Middle East and Africa (region known as EMEA)[34]. It is worth mentioning that transactions of Latin American companies that had been accounting for less than 20% of the total, started to account for almost 30% during the last two years[35]. Finally, regarding those sectors that obtained financing in the markets (see Chart B.3.2), the financial sector (banks and other financial services) represented almost half of amounts in 2010 (with an annual rise of about 100%),

[32] The spread of exchange rates in secondary markets of corporate bonds in dollars with high liquidity, as reflected in the Corporate Emerging Markets Bond Index of JP Morgan, averaged some 330bp in 2010 (against 500bp and 600bp in 2008 and 2009, respectively). Before the crisis, spreads were less than 200bp.

[33] From the rest, 8% was in euros whilst there were some transactions –for marginal amounts- in yens and Swiss francs. Unlike what happened in the case of sovereign issues, no transactions in domestic currency are observed in this case. During the previous four years issues in dollars accounted for between 70%-85% of the total, whilst issues in euros accounted, on average, for about 15%.

[34] Companies from Brazil, Russia, Mexico, Korea, Hong Kong, China and India were the main issuers in international markets in 2010 (accounting for 2/3 of the total corporate debt issued).

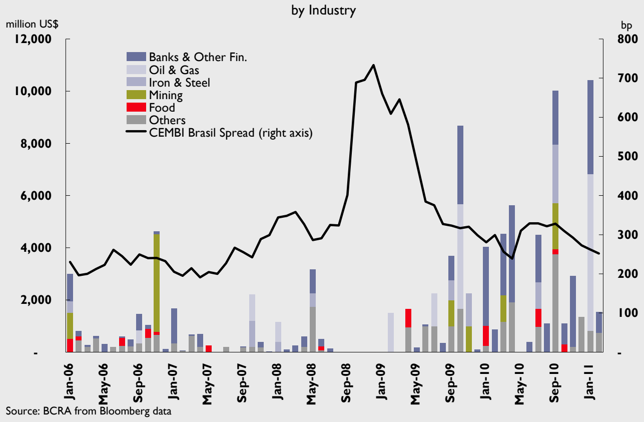
[35] Weighting similar to issues by EMEA in 2010, when this region accounted for 50% of total issues in the years prior to the international crisis.

followed by the oil/gas sector and telecommunications (both with weightings below 10%[36]).

Chart B.3.3

Brazilian Corporate Debt Issuance in International Markets

by Industry



The improvement of debt issues by Latin American companies in international markets in 2010 was led by Brazilian companies and, to a lesser extent, Mexican companies[37]. In the case of Brazilian companies, they evidenced record issues for almost US$36.4 billion in international markets, with a rise of about 70% against 2009 (and significant improvement against the amounts observed prior to the international crisis[38]), in a context where the annual average of spreads corresponding to these bonds in the secondary market was cut by almost a third[39] (see Chart B.3.3). The US dollar continues being the main currency of issues by Brazilian companies although it should be noted that there were issues in Euros in 2010 (which account for over 10% of the total amount issued in the year). Regarding terms, the weighted average of 2010 was slightly above 10 years, which means a decrease against what was recorded before the international crisis[40]. In terms of sectors, the role of banks and other entities in the financial sector in 2010 should be highlighted (they account for almost half of the amount issued by Brazilian companies in international markets during that year, the highest weighting of the last five years[41]), while the oil and gas sector (which had significant weighting in previous years) was not active regarding issues[42].

In the case of Argentina, after two years without practically any transactions of corporate financing in international markets, an incipient recovery was observed in 2010. During the year, several companies from different sectors (energy, transport, food, and beverage, etc.) carried out debt transactions which, as per announcements made by issuers once transactions were closed, were aimed at investors abroad (albeit partially). It must be noted that this kind of issues took place mainly over the last months, once the sovereign debt swap was over.

During the first months of 2011, the dynamics of corporate issues of emerging economies was dissimilar, with a marked activity in January and a clear contraction in February (in a context already affected by conflicts in the Middle East and Northern Africa). Despite greater caution was observed in international markets recently, mostly favorable perspectives are held for the year (provided no dramatic change takes place in the situation of markets at a global level); according to forecasts by different investment banks, corporate issues would continue above US$200 billion this year, with a similar share of different regions. Even though access to new funding implies benefits, this phenomenon takes place in a context marked by challenges which derived from the administration of financial capital inflow in terms of economic policy given the existing pressure of appreciation of domestic currencies.

[36] In terms of amounts, while issues by the oil and gas sector exhibit an annual decline of almost 45%, the telecommunications sector is recording an increase of 100%. Additionally, with relevant weighting and sharp increase in amounts in 2010, sectors such as mining and real estate stand out.

[37] The main corporate debt issuers in the region in 2010 were Brazil (more than half of the total issued by Latin American companies), Mexico (28%) and Chile (8%).

[38] In 2006 and 2007, Brazilian companies conducted debt transactions in international markets for almost US$13.6 billion and US$6.4 billion respectively.

[39] The spread of the Brazilian CEMBI went from an average of about 450bp in 2009 to one slightly lower than 300bp in 2010.

[40] No perpetuity issues in 2010 are included in the calculation (4 transactions for US$1.45 billion), a kind of transaction that had not been seen in the four previous years. On the other hand, terms in 2006 and 2007 (weighted average) were 19 and 15 years respectively.

[41] Between 2006 and 2009 weighting of the financial sector on the total amount of debt issued in international markets was within the range of 20%-35%.

[42] Although in the first two months of 2011 this last sector accounted for almost 50% of the total issued.

II. Local Context

Summary

During 2010 the Argentine economy again recorded strong growth in excess of 9% year-on-year (y.o.y.), pulling away from the local effects of the international crisis (see Chart II.1). This progress was mainly accounted for by consumption, although investment was the demand component showing the greatest dynamism. As a result, capital expenditure ended the year at around 23% of GDP, a level similar to that recorded in 2008. The economy is expected to remain on this economic growth path during 2011.

Growth in private sector consumption was underpinned by a rise in employment and wages as well as increased levels of credit and a larger volume of government transfers, including the Universal Child Allowance for Social Protection (AUH) and social security pension payments.

During 2010 the price dynamic was greater than in 2009, and the rise in food prices was higher than that of other segments. However, prices moderated their growth pace in the second half of 2010, a performance largely maintained at the beginning of this year. Exports and imports continued to rise at a good pace, ending 2010 with a trade surplus in excess of US$12.0 billion.

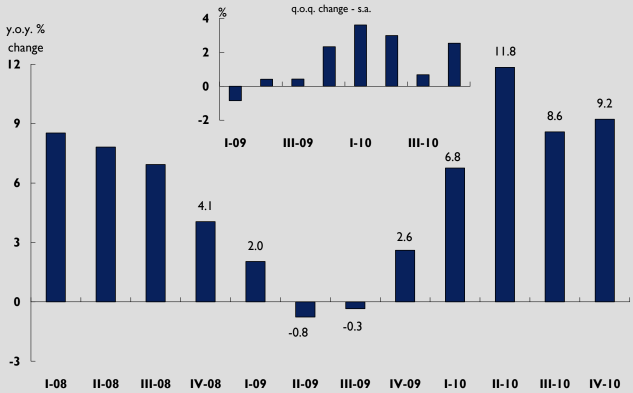
The Central Bank maintained its policy for moderating monetary supply factors (mainly by neutralizing primary issuance) so that it would be compatible with the increase in monetary demand and credit, in a context of exchange rate stability and growth in activity levels, employment and income. Total means of payment in pesos (M2) in the second half of 2010 was within the limits established in the Monetary Program update (PM), while a PM was drawn up for 2011 that lays down in its base scenario an average year-on-year change for M2 in the month of December 2011 of 27.9%. The development of this aggregate at the end of March is in line with the PM.

Local bond and share markets showed improvement in the second half of 2010 in terms of both prices and volumes traded, as a result of both the positive domestic context and the search for increased yields by international investors. Consequently, sovereign debt spreads dropped to levels not seen since early 2008 (in a context where various measures were taken to normalize the debt situation), while the Merval index reached a record high. Despite the fact that increased caution at international level had a negative impact on Argentine financial assets in the early months of 2011, the outlook for the rest of the year remains largely positive, as long as there is no seriously negative change in the global situation.

During the second half of 2010 a sharp increase was recorded in company financing on capital markets, added to sustained growth in loans to this sector (see Chapter IV). Market borrowing totaled more than double the amount observed in the first half of 2010, largely due to an increase in financial trusts (a significant volume of which were linked to infrastructure projects), and to a lesser extent, to placements of corporate bonds, which during this period returned to levels similar to those observed prior to the international crisis.

Chart II.1

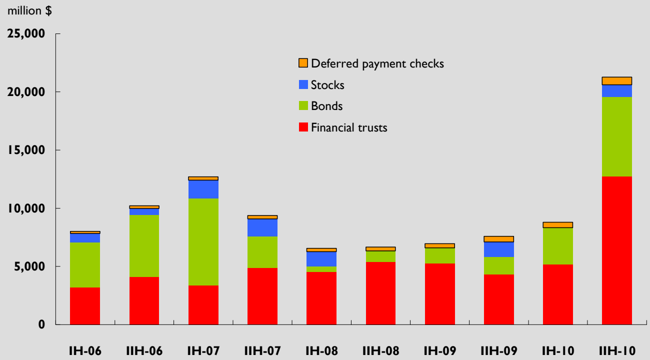
Real GDP



Source: INDEC

Chart II.2

Capital Markets Financing of Local Companies

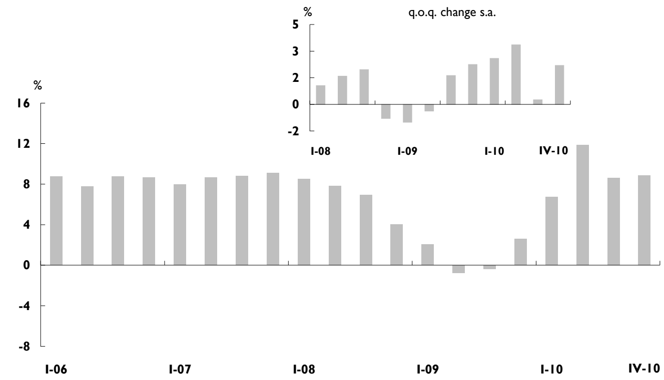


Source: IAMC and BCRA

Chart II.3

Activity. EMAE Index

Y.o.y. % change

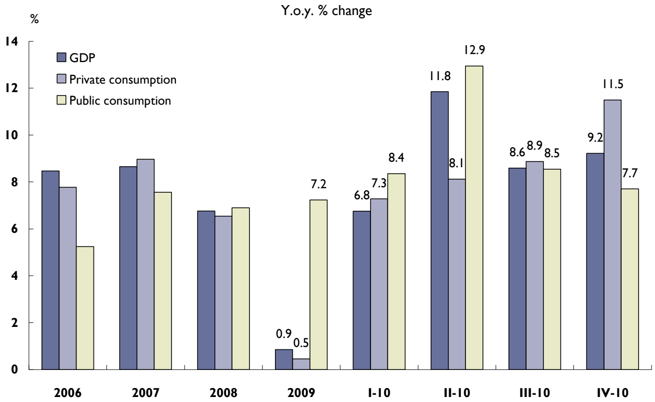


Source: INDEC

Chart II.4

Consumption Growth

Y.o.y. % change

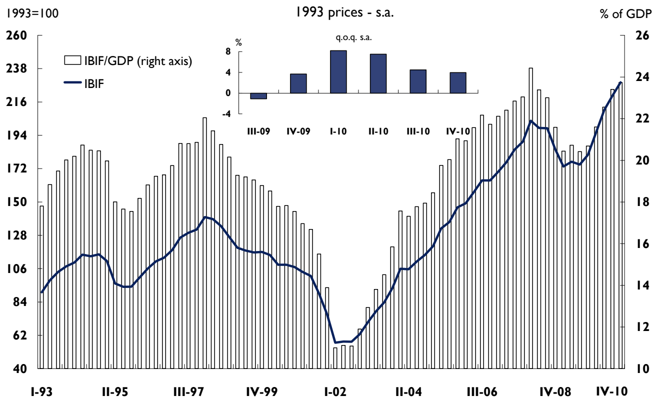


Source: INDEC

Chart II.5

Gross Domestic Fixed Investment

1993 prices - s.a.



Source: INDEC

II.1 Macroeconomic context

Economic growth gained strong dynamism over the course of 2010, ending the year with an increase in excess of 9%

The improvement in domestic economic activity gained strength in the second half of 2010, with growth rates similar to those of the 2003-2008 expansion cycle (see Chart II.3). Household consumption was once again the main support of aggregate demand, to which was added a positive contribution from investment, which recorded significant growth. Expansion was more evenly balanced between goods-producing and service sectors in the second part of 2010 compared with the first half of the year. As a result, 2010 ended the year posting economic growth of over 9% year-on-year (y.o.y.).

Stability and positive macro-economic prospects encouraged families to increase their consumption. This situation benefited from improvements in employment, wages and availability of credit (see Chapter IV), as well as from the increase in government transfers, including the Universal Child Allowance for Social Protection (AUH) and social security pension payments, which are updated in accordance with the Law on Social Security Mobility (see Chart II.4).

Investment grew strongly in 2010, largely being made for the purchase of durable equipment intended to raise the productive capacity of companies. Spending on construction also recovered, although expansion was more moderate. As a result, at the end of 2010 the investment rate was in the order of 23% of GDP, close to its highest level in the last two decades (see Chart II.5). The behavior of investment was influenced by both the incentives generated by the increase in activity and those granted by the government, including the Law for the Promotion of Investment in Capital Goods and the launch of the Bicentenary Productive Financing Program in mid-2010, with credit lines auctioned by the Central Bank.

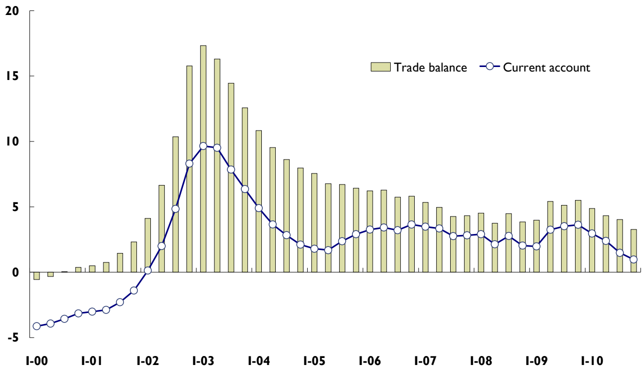
The labor market continued to reflect the impact of economic growth. The unemployment rate at the end of 2010 stood at 7.3% of the labor force (PEA), the same level recorded in the fourth quarter of 2008. As a result, over the course of 2010 unemployment dropped 1.1 percentage points (p.p.), with a notable increase in formal employment.

Exports continued to rise in the second half of the year, led by a steady increase in manufactured goods, which ended the year exhibiting a 28% y.o.y. growth. In

Chart II.6

Current Account Balance Evolution

Accumulated over 4 quarters - As % of GDP

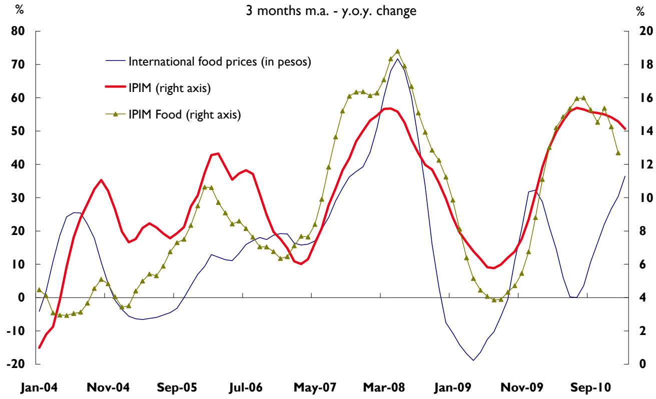


Source: INDEC

Chart II.7

International Food Prices and Wholesale Prices

3 months m.a. - y.o.y. change

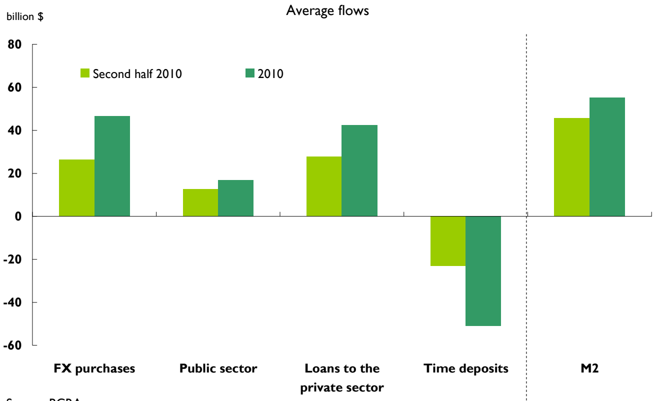


Source: INDEC and World Bank

Chart II.8

M2 Change Factors

Average flows



Source: BCRA

addition, there was a contribution from exports of farm goods after the significant increase in the harvest, following a season that had been affected to some extent by drought. Imports rose at a higher rate, largely from the purchase of capital goods, manufacturing input, and energy. In 2010 the trade balance amounted to US$12.06 billion (less than in 2009, although high in historical terms), making it possible a positive result for the current account for the ninth consecutive year (see Chart II.6).

The various indexes for prices in the economy recorded slower growth in the second half of 2010 compared with the first half of the year. Performance by prices was mainly influence by rising prices on international markets, particularly those of agricultural commodities. As a result, foodstuffs were the leading component of the rise in domestic prices, in 2010 accounting for approximately 40% of the increase in retail prices (see Chart II.7).

The Central Bank continued with its policy for moderating monetary supply factors so that they are compatible with the increased demand for money, in a context of exchange rate stability and growth in levels of activity, employment and income

Total means of payment in pesos (M2) were within the limits established in the Monetary Program update in the second half of 2010, and in December recorded a monthly average balance of $252.05 billion (an increase of 28.1% y.o.y.). Private sector means of payment (private M2) averaged $220.52 billion in December (33.1% y.o.y.), approximately 2.5% higher than the upper limit established in the Monetary Program for this aggregate ($215.2 billion).

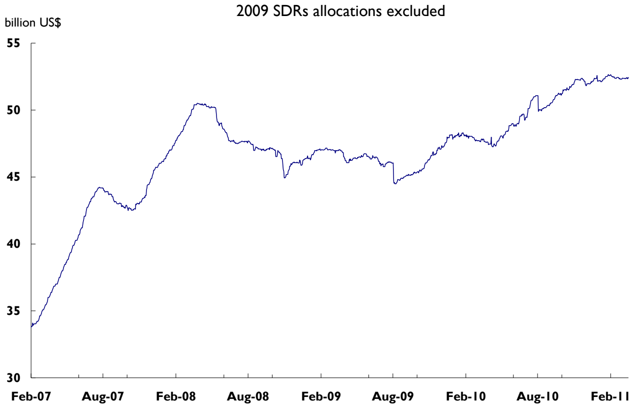
In the second half of 2010 loans grew vigorously, and the contribution from secondary monetary creation to the increase in monetary aggregates exceeded that derived from Central Bank foreign currency purchases (see Chart II.8).

In the context of the managed exchange rate float and a prudential reserve accumulation policy, Central Bank currency purchases were another of the principal means of payment expansion factors, for the second half as well as for the whole of 2010. Even after applying part of the international reserves to payments of the public debt in foreign currency in accordance with the terms of Decrees 297 and 298/2010, international reserves posted an increase of US$4.22 billion in 2010. In the first few months of 2011 Central Bank external assets continued

Chart II.9

International Reserves

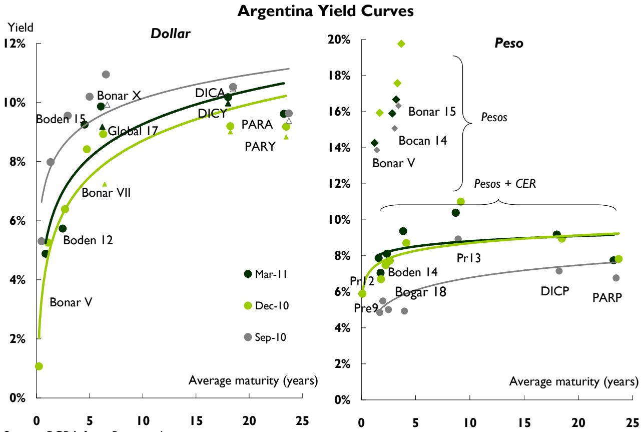
2009 SDRs allocations excluded



Source: BCRA

Chart II.10

Argentina Yield Curves



Source: BCRA from Reuters data

to increase, so at 18 March the total reached US$52.4 billion (see Chart II.9). During 2011 to date payment has already taken place of public debt in foreign currency as per the terms of Decrees 2054/10 and 276/11 establishing the use of international reserves for this purpose during the current year.

Money demand has not only gained strength in its transactional components, as there has also been an increase in the components more related with saving. As a result, time deposits absorbed part of the expansion effect on M2 generated by the factors mentioned (increased credit, purchase of currency, and to a lesser extent, public sector operations). The broadest aggregate in pesos (M3) grew 20.5% over the second half of 2010, and 35.6% y.o.y.

During 2010, the Central Bank kept benchmark interest rates on its repo transactions at the same level that since October 2009 (at 9.0% and 9.5% for reverse repos for 1 and 7 days, and 11.0% and 11.5% for repos for 1 and 7 days, respectively.) The weekly Central Bank Lebac notes saw a drop in the cut-off rate, which has fallen by 1.5 p.p. in 2010.

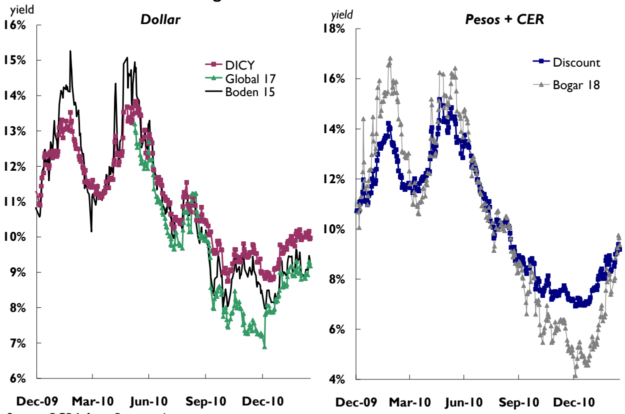
In December 2010 the Central Bank made its 2011 Monetary Program, which in its base scenario establishes average changes for M2 and Private Sector M2 of 27.9% and 29.2% year-on-year, respectively. This money expansion is explained by the forecasts for increased credit to the private sector (close to $65.0 billion), currency purchases by the monetary authority on the foreign exchange market (US$12.5 billion), and transfers of profits from the Central Bank to the National Treasury and the granting of Temporary Advances to the National Treasury for a smaller amount than in 2010. In order to maintain equilibrium between money supply and demand, sterilization of about 60% of the currency purchases on the foreign exchange market is expected.

Macroeconomic prospects remain positive for 2011, with fewer pressures on local prices, although conditions will remain dependent on the development of international commodity prices

For 2011 it is expected that the level of economic activity will continue upwards, given the consolidation of the domestic market, although recording some moderation in the growth rate. Among other factors, this slowing would be partially influenced by the lower growth rates of our leading trading partners, a drop in the contribution from the farm sector, and the greater basis for comparison represented by 2010. The rate of price

Chart II.11

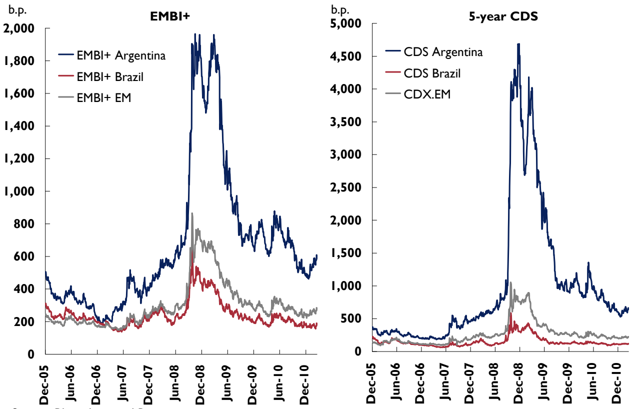
Argentine Benchmark Bonds Yields



Source: BCRA from Reuters data

Chart II.12

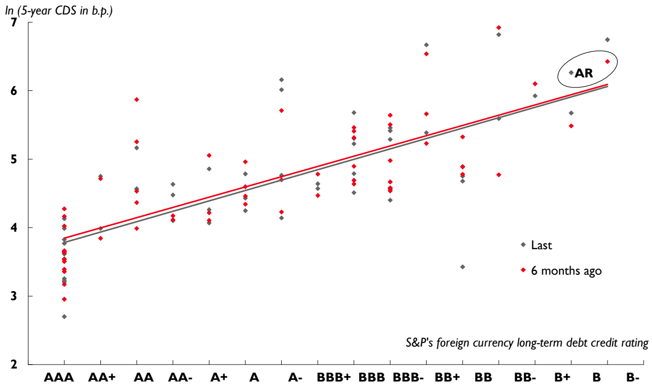
Sovereign Risk Spreads



Source: Bloomberg and Reuters.

Chart II.13

Sovereign Yield Spreads and Credit Ratings



Source: Bloomberg.

increases is expected to slow, as long as there are no supply shocks such as were seen in 2010. Nevertheless, given their correlation, the behavior of domestic prices will continue to be conditioned by the development of international commodity prices.

II.2 Capital Markets

With the appetite for emerging country assets remaining firm at international level, and positive factors at local level, government bond prices improved, although profit-taking has been observed recently

In recent months domestic asset prices have improved across the board, driven by a steady appetite for emerging economy assets (within the framework of relative soundness in macro fundamentals), a phenomenon that has been strengthened in the case of Argentina by local factors (good macroeconomic prospects, improved sovereign debt ratings, implementation of new debt swap operations, a start to talks with the Paris Club, debt repayment using reserves, etc.). Although the balance in terms of volumes and prices is positive, certain factors in relation to international financial markets (uncertainty as to the situation of certain countries in the euro zone, rising interest rates in certain large emerging economies, and more recently socio-political tensions in the Middle East and the catastrophe in Japan) have continued to imprint volatility on markets, affecting the behavior of local assets in the early months of this year. Expectations remain favorable for 2011, although influenced by developments on international markets.

Improved bond prices implied a shrinking of yields since September, although these gains were partly limited by a change in price trends in recent months. Since September there have been reductions in yields of over 100 b.p. on average for bonds in dollars[43] (see Chart II.10), some 20 b.p. for those in pesos adjusted by CER, and 200 b.p. in the case of bonds in nominal pesos. The yield of the Global 17 bond in dollars issued during the debt swap in May last year (the benchmark bond for the issue) has been outstanding, reaching a level of close to 7% until rising back slightly later at a time of greater international market volatility (see Chart II.11).

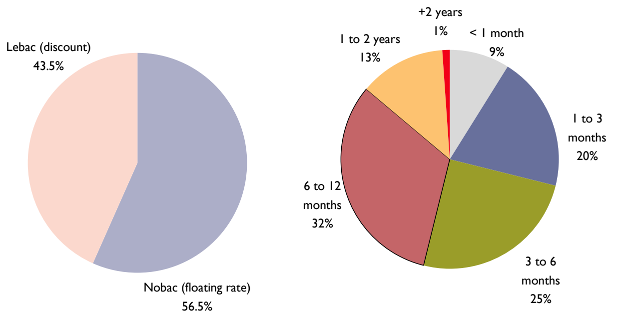
In line with the rise in the price of sovereign bonds in dollars governed by international law, Argentine risk spreads were sharply lower, reaching in January levels

[43] The drop was sharper in the case of shorter-term bonds.

Chart II.14

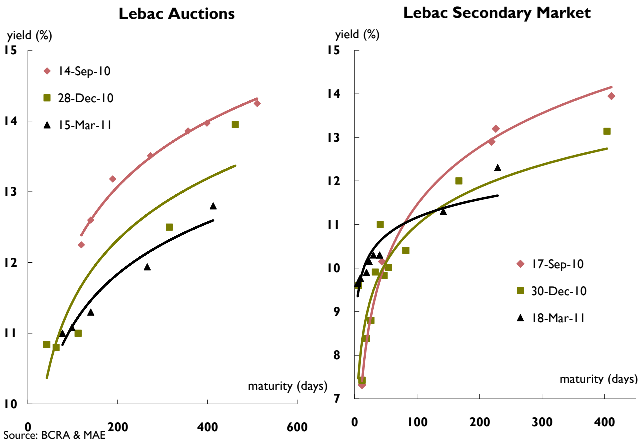
Outstanding Lebac and Nobac Stock Composition

Outstanding stock by type of interest rate and maturity - Mar-11



Source: BCRA

Chart II.15



Source: BCRA & MAE

not seen since the beginning of 2008[44], although there was a correction to this improvement subsequently (see Chart II.12). As a result, the spread of the EMBI+ for Argentina and the 5-year contract premium for credit default swaps (CDS) on its sovereign debt currently stand at around 590 b.p. and 640 b.p. respectively (after having averaged almost 700 b.p. and 900 b.p. in 2010). In relative terms, Argentine debt differentials compared with other emerging country reference bonds recorded contraction (in a range of 80 to 140 b.p. for short-term bonds). After the improvement in sovereign grade[45], there was an adjustment in Argentine relative risk indicators, with a drop in the spread compared with that of other countries with a similar rating (see Chart II.13).

In recent months the Government has continued to borrow directly from within the public sector, rolling over and placing short-term bills, and to a lesser extent, bonds. In the case of the former, the outstanding stock increased 49% during 2010, reaching $15.6 billion at the end of the year[46]. In the case of bonds, in recent months approximately $2.26 billion in dollar Discount bonds governed by local legislation have been placed with the FGS (Guarantee and Sustainability Fund). Recently a total of US$9.8 billion in non-transferrable Bills were placed with the Central Bank in exchange for the payment out of freely-available reserves of most of the public debt servicing in 2011[47]. As a result, public debt in December 2010[48] totaled US$164.33 billion, a figure that includes all the bonds issued as a result of the exchange with the holdouts carried out in mid-year (for US$7.83 billion)[49]. It should be noted that at the end of 2010 the Government carried out two new debt swaps, seeking to increase the amount of the debt to holdouts that has been regularized. These were an operation that targeted holders of Brady Bonds (debt not considered in June 2010 for an eligible value of approximately US$331 million), and a reopening of the June 2010 exchange offer. Taking these two operations together with those in 2005 and June 2010, debt regularization has reached 92% of the eligible total.

Cut-off rates have been lowered and placement terms have been lengthened for Central Bank bills and notes

[44] The drop in Argentine spreads took place at a time when yields on US Treasuries went up, only to drop back in part later (when the volatility on international markets increased). As a result of the placement of international debt linked to the exchange of debt with holdouts, a slight increase was recorded in the weighting of international debt in J.P. Morgan's EMBI index (in the EMBI+ EM it went up from 2.19% in April to 2.45% in October).

[45] Following the sovereign debt swap ended in June, Fitch Ratings and Standard & Poor's increase the grade for long-term debt in foreign currency to "B" (in July and September, respectively). In both cases, since 2008 the previous grade had been one step lower ("B-").

[46] Latest information available.

[47] Decrees 2.054/2010 and 276/2011.

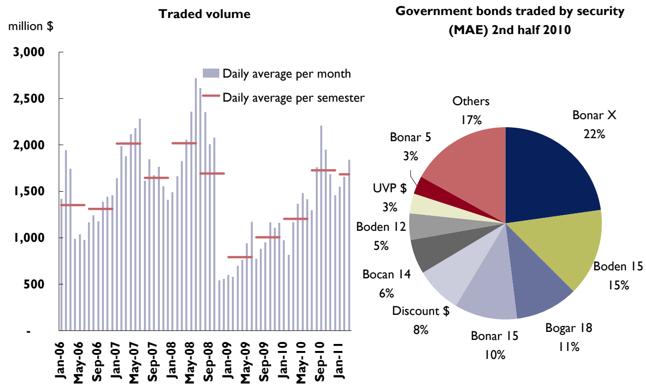
[48] Latest information available.

[49] If the total debt in default not swapped in 2005 or mid-2010 for US$11.22 billion is considered, the debt total rises to US$175.55 billion.

Chart II.16

Traded Volume in Fixed Income

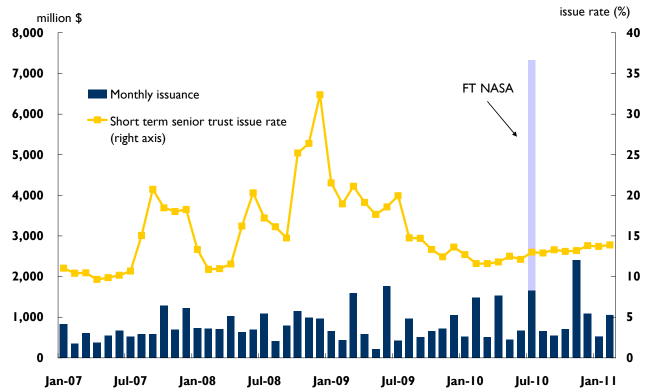
Government Bonds and Lebac / Nobac



Source: MAE & BCBA

Chart II.17

Issuance of Financial Trusts



Source: BCRA from CNV and IAMC

The Central Bank has ensured a balance between money supply and demand by sterilizing potential surpluses, mainly through the placement of Lebac and Nobac on the primary market. As a result, the outstanding stock of bills and notes amounted to almost $84 billion in mid-March, an increase of over 17% in the last 6 months. In the primary market there has been a gradual increase in the demand for Nobacs since mid-2010, resulting in an increased share by these notes in the outstanding stock of bills and notes (causing a gradual increase in placement terms). At present, more than half the stock consists of Nobacs (57%), whereas in September last year they accounted for barely 16% (see Chart II.14). As to rates, there has been a drop in excess of 100 b.p. in Lebacs (see Chart II.15), at the same time as placement terms remained relatively uniform. In the case of Nobacs, there were awards of notes for longer terms (over 800 days) with cut-off spreads reflecting some decline compared with those in effect in September[50]. In the secondary market, although some of the appetite for notes was translated into growing dynamism in the Nobac market, transactions involving bills continued to lead the way. In the case of both types of instrument there was greater diversity of securities traded. There was a flattening of the yield curve for Lebacs (because of an increase in short-term results, and to a lesser extent, cuts in longer rates) at the same time as for the Nobacs there was also some decline in the spreads over Badlar[51].

Trading volumes on local bond markets have tended upwards

Bond trading volumes (including Central Bank instrument) on local markets (BCBA and MAE) recorded a sharp increase in the second half of 2010 (almost 45%), a sign that the reduction in yield coincided with increasingly significant trading flows. Although in the early months of 2011 there was some reversal (linked to seasonal factors), in year-on-year terms the increase in business volume was almost 80% (see Chart II.16). According to MAE information, the most frequently traded sovereign bonds in the second half of 2010 were the Boden 15 and Bonar X in dollars, while there was also increased investor interest in the Bonar 15 (a bond in pesos accruing interest on the basis of the Badlar rate).

Financing of the private sector via capital markets increases

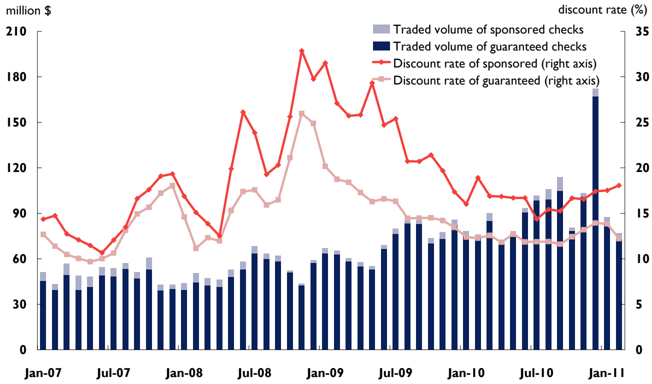
In the second half of the year there was a sharp growth in private sector financing on capital markets, which totaled

[50] In yield terms, the drop is considerably lower, because of an increase in the Badlar reference rate.

[51] Nevertheless, the limited activity during September 2010 hinders a more detailed comparison.

Chart II.18

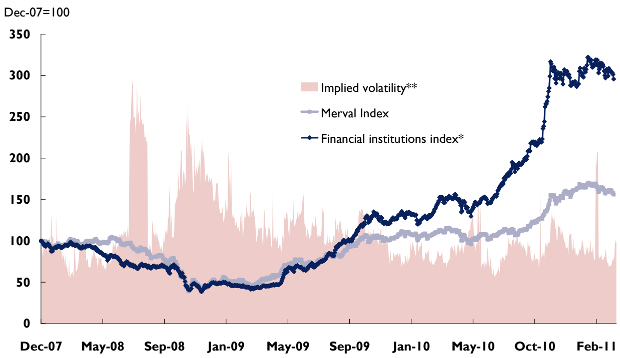
Trading of Deferred Payment Checks



Source: BCRA from IAMC

Chart II.19

Local Stock Market Evolution



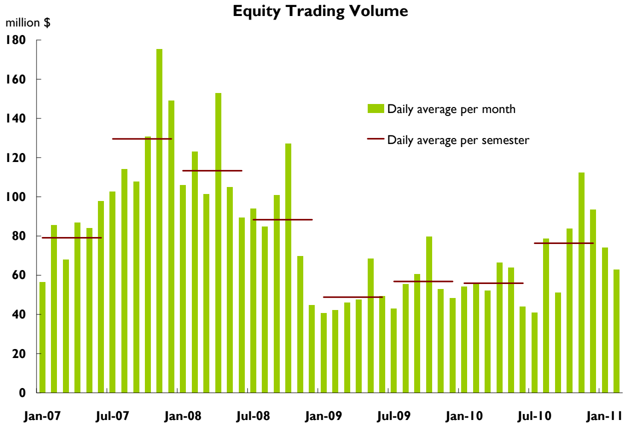
(*) Weighted average based on market capitalization

(**) Arithmetic average of implied volatilities of the 3 main domestic equities in the stock index

Source: BCRA and Bloomberg

Chart II.20

Equity Trading Volume



Source: BCBA

$21.3 billion (see Chart II.2). This amount was equivalent to an increase of 142% in half-yearly terms, largely explained by financing develop of public infrastructure and the increase in bond placements in local and international markets.

Financial trusts continue to be the main capital market funding instruments, with a notable half-yearly increase in the last half of the year (see Chart II.17), and in the first few weeks of 2011 placements have continued at a good pace. The largest percentage of asset securitization has corresponded to issues in connection with the develop of public infrastructure (with one particular very major transaction[52]), followed by those related to consumption (personal loans and credit card coupons). In addition, in the last half of 2010 an increase in the cost of borrowing was evidenced compared with the earlier part of the year and with the same period of 2009. More recently, in February there was a slight increase in the rates of senior securities.

Companies also obtained financing by means of the issue of bonds (corporate bonds) in the second half reaching volumes almost equal to those of the period prior to the international crisis. The climate on domestic and international markets has made it possible to speed the recovery in financing that had already begun to be seen in the first part of the year. There were several notable placements on local and international markets (see Box 3) for large amounts, in many cases intended to improve the debt profile of the issuers. This situation was repeated in January. On the matter of costs, cut-off rates in pesos recorded increases in the second part of the year, while rates in dollars fell[53].

Short-term financing by means of the discounting of deferred payment checks (a mechanism mainly related to SMEs) has risen sharply since June (see Chart II.18), reaching new highs for the month. In the case of the terms traded, although peaks were reached in the middle of last year, in subsequent months (including the first few months of 2011) these periods have gradually declined. The cost of this financing has risen slightly, particularly as from the last quarter of the year, for both guaranteed and sponsored checks.

Merval reaches record highs in dollars and in pesos

After the sharp rise recorded by the Merval index in the second half of 2010 (61%) (see Chart II.19), new highs were reached in early 2011 in local currency terms, and

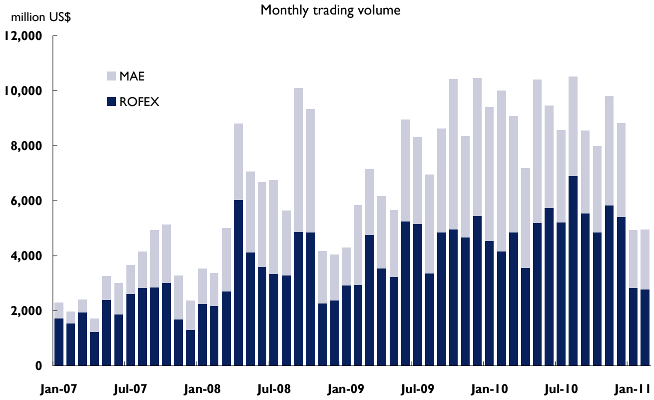
[52] An issue launched in July for the carrying out of a nuclear energy project.

[53] This could have been due to the sovereign debt swap carried out in mid-2010.

Chart II.21

Dollar Futures

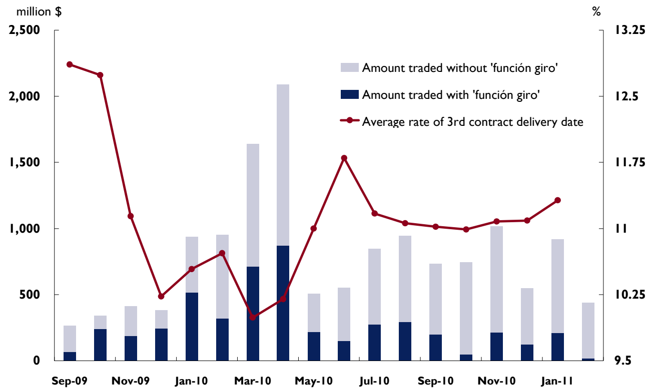
Monthly trading volume



Source: ROFEX and MAE

Chart II.22

Badlar Interest Rate Futures



Source: BCRA

for the first time the record in dollars set in June 1992 was exceeded, although since the beginning of February a negative trend has been recorded (in line with the less favorable international context)[54]. Improvement in the index through to February took place simultaneously with an increase in trading volumes, which rose to levels close to those in force at the time the pension and retirement system was changed. In the second half of the year the average daily share trading volume was $77 million, compared with $56 million in the first half (see Chart II.20).

Financial sector shares were among the leaders in the second half, almost doubling their value during the period. This impulse was derived from an improved local and international context, the increased loan and deposit stocks evidenced by banks on their balance sheets, and improved prices for government securities (including those adjusted according to the CER index) following the carrying out of the sovereign debt exchange.

In the case of the primary market, two companies made initial public offerings for $385 million, and three issued new shares for $668 million[55] in the second half of 2010, following a first half in which no subscriptions had been offered.

The domestic exchange rate derivatives market has maintained its dynamism

During the second half of last year exchange rate derivative trading remained almost steady in half-yearly terms (see Chart II.21), setting a monthly record in August. Trading in Private Bank Badlar futures (a much more limited market) declined in the second half, although the trend towards deals without Central Bank intervention has continued (see Chart II.22). Rates for forward market transactions have risen in recent months, keeping pace with the increase in Badlar on the spot market.

[54] Between the beginning of February and mid-March, the Merval lost 10%, in both pesos and dollars.

[55] In 2010 two new companies also began to trade their shares on the secondary market.

III. Debtors Performance

Summary

The domestic economic activity closed the year 2010 with a high growth rate, driven by the expansion of the domestic market and the recovery of the foreign demand, thus resuming the trend of the 2003-2008 period. The economic expansion, combined with moderate indebtedness levels of both companies and households (beyond the recovery of credit momentum in the second half of the year), tended to improve the economic and financial position of debtors and reverted the highly stressful period of 2009.

The increase in activity levels was widespread throughout the year, with a sound performance by goods producing sectors. Industrial production kept a high expansion rate in the second half of 2010, accompanied in the same period by more stable indebtedness levels of this sector's companies together with a reduced use of non-residents' resources.

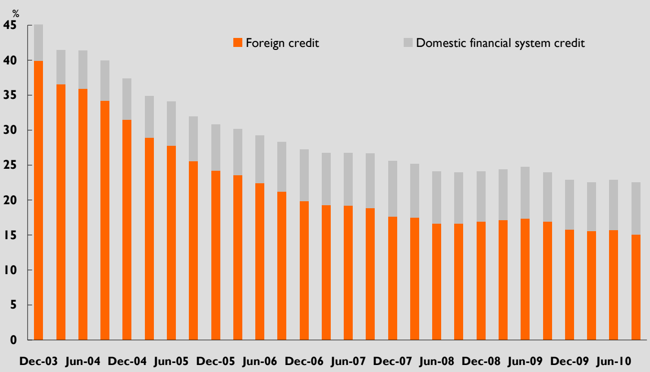
The agricultural sector moderated its expansion rate by the end of 2010, after the strong growth recorded in the first half of the year. Regarding livestock, the beginning of an animal-retention cycle led to an investment process in this sector. It is worth mentioning that the indebtedness of primary sector firms started to decrease in terms of the sector GDP, after the increase recorded in 2009. In this context, the financial situation of these companies started to consolidate, giving rise to a trend which is expected to continue in 2011 due, in part, to the growth of raw material international prices and the revaluation of cattle stocks.

Households' increased consumption continued to impact favorably on the demand for services. Public services were highly dynamic in the second half of the year, reaching new consumption record levels. In addition, the sale of durable goods reached a peak, as a result of increased trade activities. Indebtedness of both segments continued to be under the average (around 17% of the sector GDP). The construction activity, characterized by a relatively low indebtedness level (13% of the sector GDP), recovered significantly in 2010, as a result of the improvement recorded in both public and private works.

In late 2010, households kept their payment capacity indicators virtually unchanged, with higher income available resulting from an improved labor market and from larger public sector transfers. This positive context was accompanied by an incipient increase in households' total indebtedness (especially in connection with the consumption-related segment), though it still maintains a reduced value if compared to other emerging and developed economies.

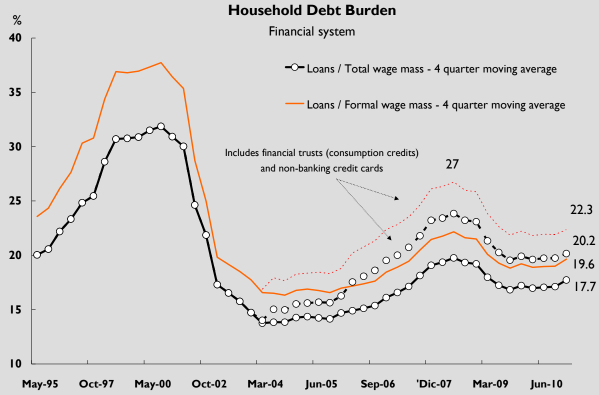
Throughout 2011, the GDP is expected to continue its expansion trend, mainly driven by the domestic market improvement. The sound macroeconomic conditions of local economy, added to the favorable growth expectations for the region, would sustain the increased demand from the different productive sectors, including goods and services, though at a probably slower pace than that of 2010.

Chart III.1
Corporate Debt
As % of GDP 4-quarter moving average



Note: Data subject to subsequent changes
Source: INDEC and BCRA

Chart III.2
Household Debt Burden
Financial system

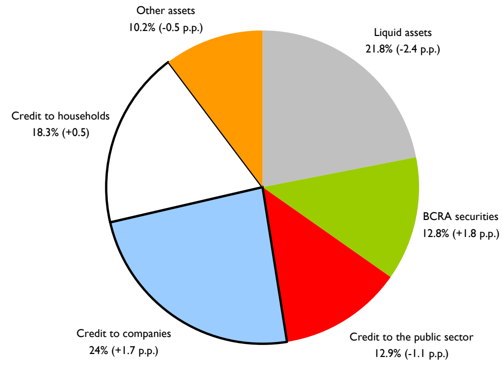


Source: BCRA and CNV

Chart III.3

Financial System Asset Portfolio

As % of netted assets - December 2010 - (P.p. change respect to June 2010)

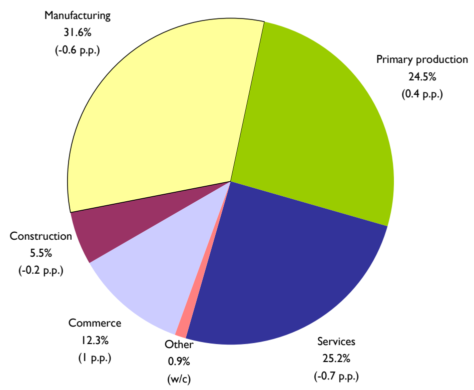


Source: BCRA

Chart III.4

Composition of Corporate Loan Portfolio

December 2010 - (P.p. change respect to June 2010)

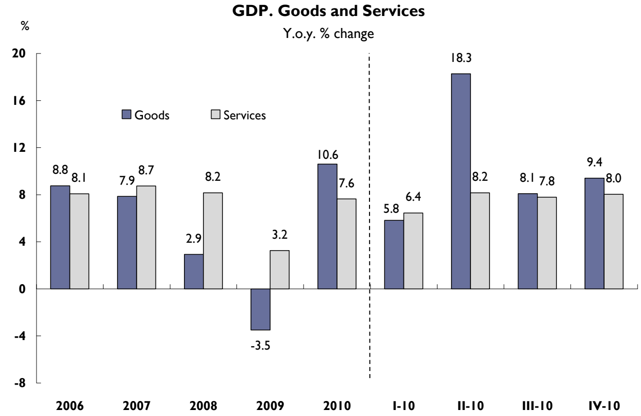


Source: BCRA

Chart III.5

GDP. Goods and Services

Y.o.y. % change



Source: INDEC

III.1 Financial System Debtors

By the end of 2010, credits to the private sector, to both companies and households, have experienced a significant boost

After the slowdown caused by the local effects of the international crisis, a remarkable recovery was evident in the financial resources provided by the banks to the private sector. Consequently, by the end of the year, slightly over 42% of bank assets were devoted to financing the corporate sector and households (see Chart III.3) (up 2 percentage points –p.p.- against the figures recorded by mid year), recovering the values observed by mid 2009 and leaving behind the slump caused by the impact of the international crisis. It is worth mentioning that lending to companies experienced a higher momentum in relative terms, increasing its share to 24% of bank assets.

Financial entities reduced their precautionary liquidity slightly by late 2010, still showing a considerable space to continue financing all private sector segments in the next years. In turn, lending to the public sector continued losing weighting.

The increase in bank resources was channeled to most productive segments at year closing, especially to commerce and primary production (see Chart III.4). In turn, financing to households started to recover in the second half of the year, increasing its weighting in bank assets.

III.2 Corporate sector

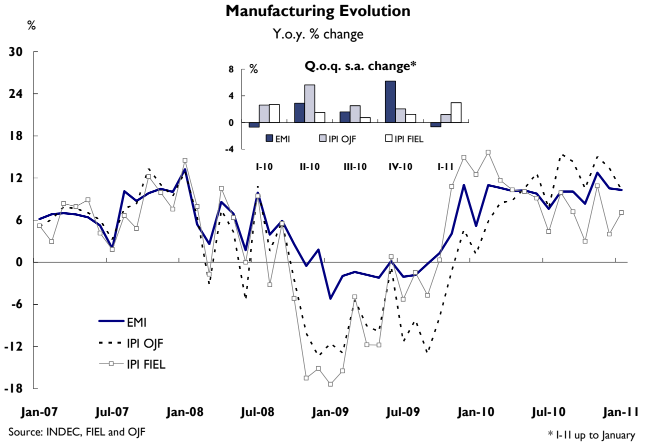
The financial position of the corporate sector improved by the end of 2010, hand in hand with the performance of the economic activity

GDP ended the second half of 2010 with a strong growth level (see Chapter II), mainly as a result of the higher levels of domestic spending and the increase of foreign demand, which favored an improved production of goods and services. The positive effect of the grain harvest, mainly in the first half of 2010, started to fade away. However, the production of goods continued to grow at higher rates than services, boosted by the industrial and construction sectors. Services maintained a high and sustained expansion, driven by the increase in domestic spending and the recovery of tourism (see Chart III.5).

Chart III.6

Manufacturing Evolution

Y.o.y. % change



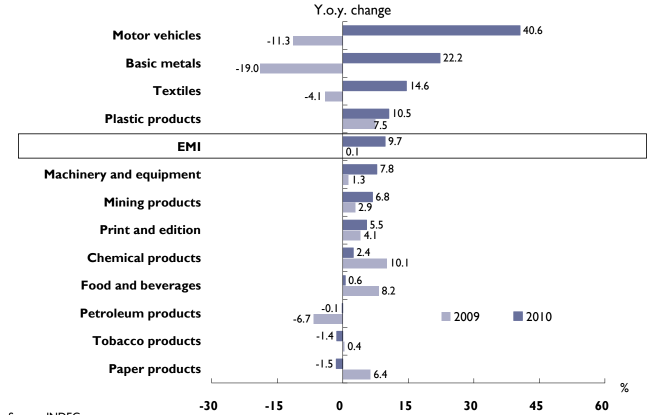
Source: INDEC, FIEL and OJF

* I-11 up to January

Chart III.7

Industry. Sectorial Evolution

Y.o.y. change

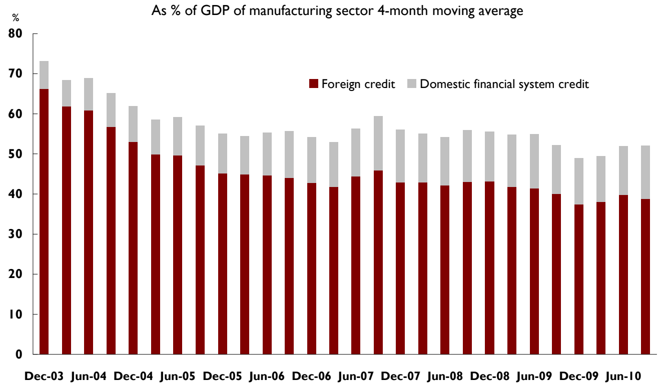


Source: INDEC

Chart III.8

Manufacturing Sector Debt

As % of GDP of manufacturing sector 4-month moving average



Note: Data subject to subsequent changes

Source: INDEC and BCRA

The indebtedness of the corporate sector was around 23% of the sector GDP throughout 2010, below the figures recorded in previous years (see Chart III.1). The share of foreign financing continued its downward trend up to about two thirds of the total, recording a fall of over 10 percentage points in the last 5 years, despite the nominal exchange rate increase. In the specific case of companies participating in the local Capital Market, their leverage levels remained stable between ends of 2010, though with some variability between quarters.

These moderate indebtedness levels shown by companies, added to the gradual increase of the financing sources and of the economic activity expected for 2011 contribute to consolidating the payment capacity of this sector.

Productive sectors

Companies of the manufacturing sector are experiencing a high expansion and a stable debt level, two factors that impacted positively their financial position

Manufacturing increased its activity levels by the end of 2010, at a slightly higher rate than that of the first half of the year (see Chart III.6). Growth was driven by the domestic market and the improvement in manufacturing exports.

In the second half of 2010, it was observed that the share of growth contribution of the different industrial segments was even more widespread. Motor vehicles and basic metal industries continued leading the expansion. Automobile manufacturing was boosted by domestic demand and the increase of foreign demand, thus recovering the ground lost in 2009 and even exceeding the figures of 2008, breaking a new historical record. These improvements, together with the recovery of the remaining segments of durable consumer goods and machinery, drove the growth of basic metal industries and of plastic and rubber products (see Chart III.7). In turn, the increased investment in the construction sector resulted in higher demand of cement and other construction materials, resulting in a growth of production amounts. The increase of the raw material available after the entry of the new harvest has allowed oil and dairy product companies to process higher amounts than the previous year.

Hand in hand with productivity expansion, the use of installed capacity continued to increase throughout 2010, together with a higher number of hours worked. Within a context of favorable expectations, an

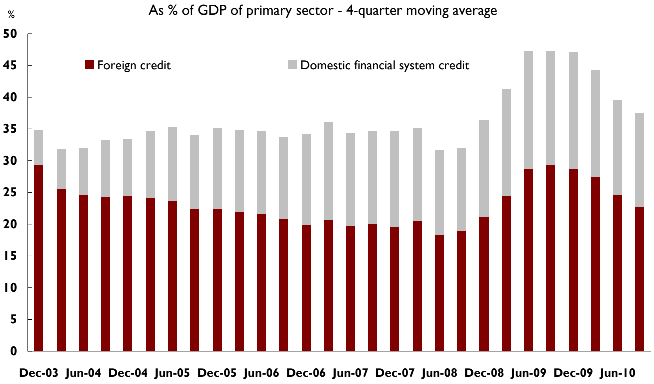
Table III.1

Grain Production

	2008-09 thousand tns	2009-10 thousand tns	2010-11 thousand tns	Var % 2010-11 vs. 2009-10	Diff. in thousand tns 2010-11 vs. 2009-10
Cereals	**26,740**	**38,027**	**44,600**	**17.3**	**6,573**
Corn	13,121	22,680	20,500	-9.6	-2,180
Wheat	8,373	8,750	14,720	68.2	5,970
Sorghum	1,752	3,630	3,300	-9.1	-330
Other	3,494	2,967	6,080	104.9	3,113
Oilseeds	**34,222**	**55,744**	**54,571**	**-2.1**	**-1,173**
Soybean	31,000	52,700	50,000	-5.1	-2,700
Sunflower	2,450	2,320	3,700	59.5	1,380
Other	772	724	871	20.4	147
Cotton	**389**	**760**	**841**	**10.7**	**81**
Total	**61,351**	**94,531**	**100,013**	**5.8**	**5,481**

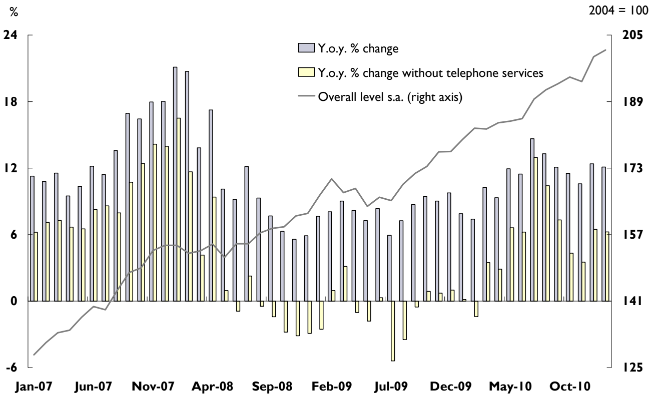
Source: BCRA from MAGyP data

Chart III.9
Primary Sector Debt
As % of GDP of primary sector - 4-quarter moving average



Note: Data subject to subsequent changes
Source: INDEC and BCRA

Chart III.10
Synthetic Indicator of Public Services



Source: INDEC

intensified utilization of productive factors largely boosted the demand for credit by companies with a view to increasing their available installed capacity.

Manufacturing companies' estimated indebtedness stabilized at slightly over the half of the sector GDP in the second half of the year (see Chart III.8), below the figures recorded in previous years. In the last six months of 2010, non-residents' resources accounted for nearly 75% of total indebtedness, below the values of previous years (in 2005, they reached over 80%). For the rest of the year, the increase in consumption and investments will probably continue determining an expansion in the production of manufacturing goods, thus contributing to the consolidation of the sector's financial situation.

The strong increase of commodities prices, within a context of sustained agricultural production and lower indebtedness levels, favors an ongoing improvement in the financial situation of agricultural companies

After the strong rebound of the 2009/2010 harvest, the current campaign is likely to continue expanding, since the remarkable increase in the production of wheat (about 70%) and other grains would offset the expected reduction in corn and soybean. The insufficient rainfall in late 2010 until mid-January 2011 adversely impacted the development of some crops, especially corn, with the resulting decline in yields. Soybean was less affected due to the regularization of rainfall (see Table III.1).

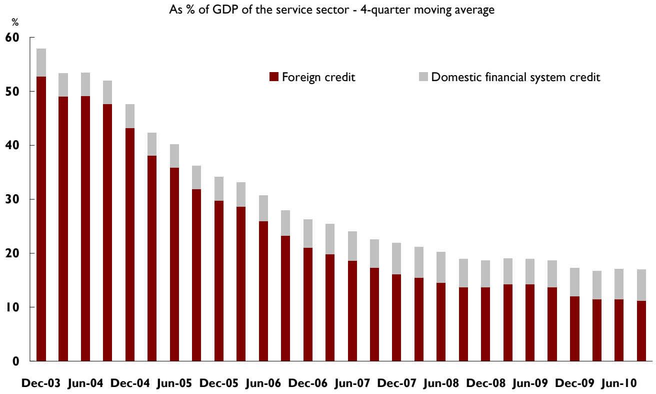
After the decline of livestock activities in 2010, mainly due to the need to rebuild cattle stocks, slaughtering is expected to stabilize this year, taking advantage of the sharp rise of the international meat price and its correlation in the domestic market.

Indebtedness of the primary sector's companies started to decline in the second half of 2010, accounting for approximately 38% of the sector GDP. To some extent, this evolution offset the increase recorded throughout 2009, when it had reached nearly 47% (see Chart III.9), mainly due to indebtedness with non-residents. In a context in which the production of the 2010/2011 agricultural campaign would surpass the previous campaign, added to the expected stabilization of the cattle-breeding production, the financial situation of companies of this sector is likely to continue improving, on account of the lower indebtedness levels and the remarkable increase in raw material international prices.

Chart III.11

Service Sector Debt

As % of GDP of the service sector - 4-quarter moving average



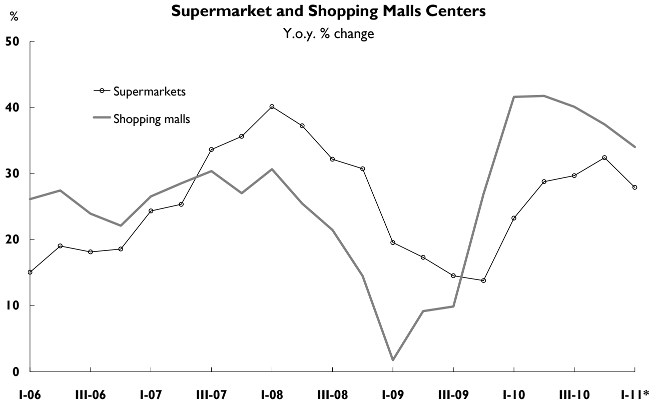
Note: Data subject to subsequent changes

Source: INDEC and BCRA

Chart III.12

Supermarket and Shopping Malls Centers

Y.o.y. % change

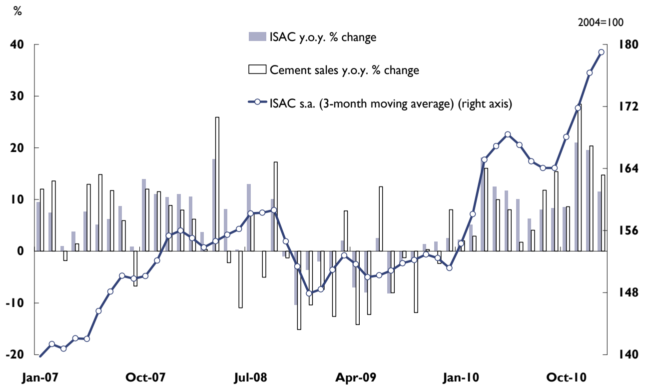


Source: INDEC

* Up to January

Chart III.13

Construction Indicators



Source: INDEC and AFCP

Service companies' payment capacity would continue to be on the rise, underpinned by a sustained demand

Public services consumption grew steadily during 2010, accompanying the expansion in the goods production and a rise in household spending (see Chart III.10). There was an across-the-board increase, led by telephone (mainly mobile) companies, as in previous years. Cargo transportation recovered remarkably in 2010 (after the fall recorded in 2009), as a result of the strong improvement of the agricultural and manufacturing sectors. In turn, passenger transportation also increased, driven by enhanced domestic and international tourist activities, a trend which is expected to continue in 2011 due to the new calendar of national holidays.

While service companies' total indebtedness stood at 17% of the sector GDP (see Chart III.11), slightly below the figures of previous years, a change in the composition of indebtedness was evident. Thus, while at the end of 2008 almost 75% was denominated in foreign currency, by the end of 2010 it had declined to two thirds. This evolution, combined with the positive performance expected for service companies in 2011, is contributing to their financial soundness.

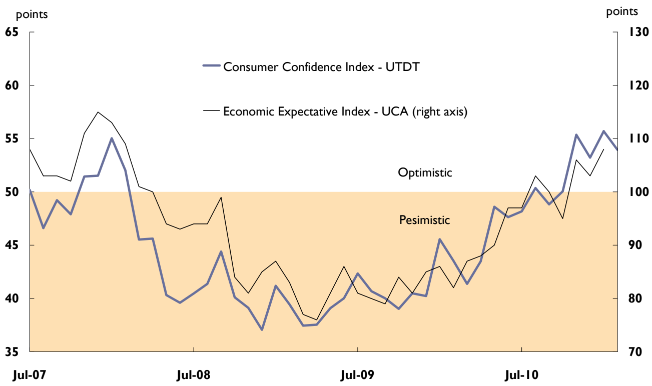
Commercial activities showed a highly positive performance in 2010, which consolidated the payment capacity of the firms of this segment

Sales at supermarkets and malls experienced a remarkable acceleration against 2009 figures (see Chart III.12). The positive performance was underpinned by promotion campaigns and financing plans implemented jointly by financial entities, credit card companies, supermarkets and stores in general. The increased income of the population and the improvement in consumer confidence resulted in higher purchases of durable goods. Thus, sales of automobiles to the domestic market improved sharply in 2010, after the fall evidenced in 2009, breaking once again a historical record. In turn, retail trade exhibited a sizable expansion in 2010, due to the sustained increase in household spending. This context led to a gradual indebtedness increase of commercial sector companies in the second half of 2010 (up to approximately 17% of the sector GDP), mainly through the resources provided by the domestic financial system. This favorable context allowed them to sustain their already-sound financial position, an evolution which is expected to consolidate in 2011 given the upbeat outlook for the current year.

Chart III.14
Labor Market

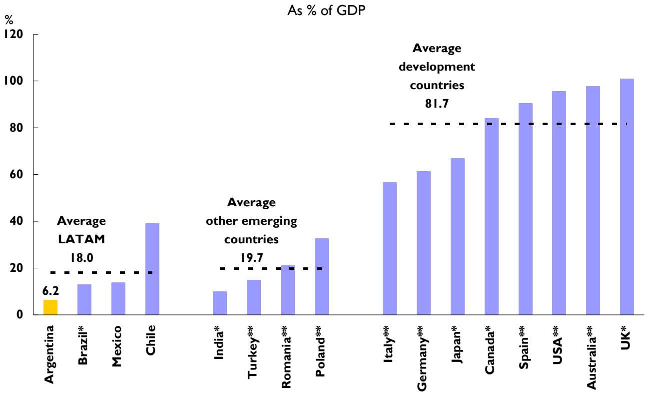
Source: INDEC

Chart III.15
Consumer Confidence



Source: Universidad Torcuato Di Tella (UTDT) and Universidad Católica Argentina (UCA)

Chart III.16
Household Debt
As % of GDP



Source: *McKinsey Global institute (year 2008), **IMF (last available data) and Financial Stability Reports of corresponding countries

The construction activity improved remarkably in 2010, while the companies in this sector maintained low indebtedness levels

Construction expanded at high rates in 2010, after the decline of the previous year (see Chart III.13). There has been a widespread growth in this sector, with a strong rebound of oil-related works after their fall in 2009. Both public and private construction showed a favorable performance in 2010, with an acceleration of road infrastructure works in the second half of the year. Construction companies continued to evidence low indebtedness levels (domestic and with non-residents), accounting for nearly 13% of the sector GDP, in line with the trend in recent years. These indebtedness levels are likely to remain low in the next months, within a context of sustained activity levels and with a higher increase of public infrastructure works over private works.

III.3 Households

Households' payment capacity has improved on account of a more robust labor market and the effect of public policies

Sustained economic growth, labor market improvement and the impact of public policies (both labor-related and in terms of transfers to the most vulnerable sectors) boosted an increase of households' disposable income. Employment rose throughout 2010 (see Chart III.14), with an improvement in the quality of job creation, evidenced by the rise in full-time jobs and the decrease of underemployment.

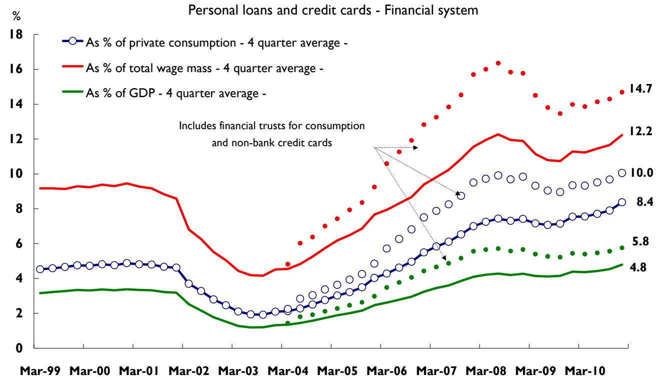
Vis-a-vis an increasingly robust economic situation, reflected in the labor market, the consumer confidence continued on the rise, resulting in an improvement of future expectations (see Chart III.15). This process was driven by a context of wage improvements and the increase of government transfers, including the Universal Child Allowance for Social Protection (AUH), the increase in the Minimum Wage and in the minimum retirement benefit.

These improvements in households' income flow, in a context of recovered momentum in lending from the financial sector to the households (see Chapter IV), have resulted in an incipient increase in their total indebtedness levels by the end of 2010 (see Chart III.2). Nevertheless, these levels are below those observed before the global financial crisis and are still low according to international standards (see Chart III.16).

Chart III.17

Household Consumption Indebtedness

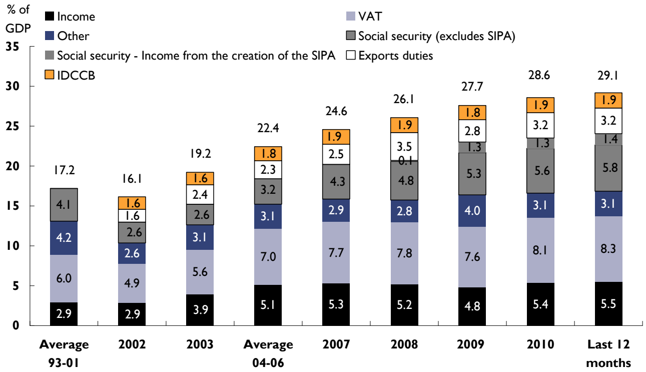
Personal loans and credit cards - Financial system



Note: Non-bank credit card data available from March 2004 and financial trusts consumer loans as underlying assets since March 2006.
Source: BCRA and CNV

Chart III.18

Share in National Tax Revenue

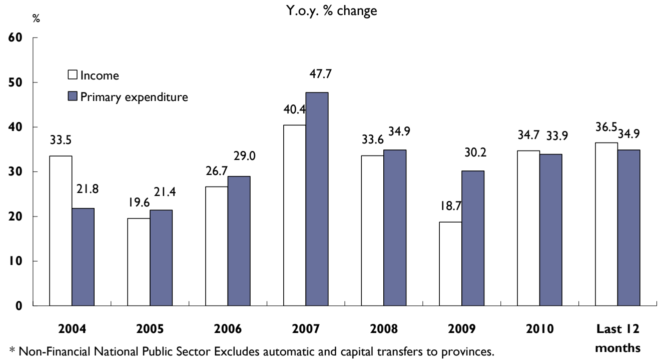


* Tax on credits and debits to bank accounts
Source: BCRA from Treasury Secretariat and INDEC data

Chart III.19

Income and Expenditures of the NFPS*

Y.o.y. % change



* Non-Financial National Public Sector Excludes automatic and capital transfers to provinces.
Source: BCRA from Treasury Secretariat data.

In a context of households' income recovery, the indebtedness through credit lines mainly devoted to consumption has experienced a higher relative increase (see Chart III.17), especially in the second half of 2010, reaching similar levels as those of 2008, in a context of low delinquency ratios, proving the good payment capacity of households (see Chapter V).

The positive signals of the labor market, added to the strengthening of the government transfers to households and the moderate indebtedness levels, would contribute to the increase of households' income in 2011 and to the consolidation of their payment capacity.

III.4 Public sector

Tax revenue and primary spending continued to grow at high rates, with a recovery of primary result

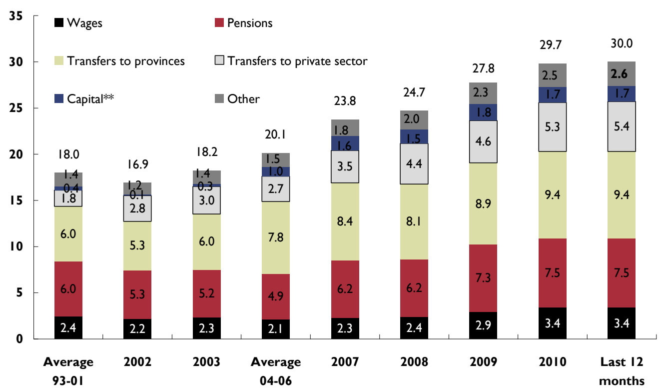
Tax revenue experienced high growth rates in the second half of 2010 and early 2011, within a framework of significant momentum in the economic activity[56]. The annual improvement was driven by the Value Added Tax (VAT), the social security funds, the income tax and the taxes related to foreign trade. Thus, tax revenue grew 34% year-on-year (y.o.y.) in 2010, reaching a new historical maximum of 28.6% in GDP terms (see Chart III.18).

In 2010, the Non-Financial Public Sector (NFPS) resources grew at a similar pace than primary spending (see Chart III.19). Between June and December 2010, spending accelerated its growth rate mainly due to social security benefits and to the current transfers to the private sector. Considering the automatic transfers of resources to provinces (federal tax-revenue sharing system, special laws and others), the primary spending level reached 29.7% of GDP in 2010 (see Chart III.20).

The NFPS primary result amounted to approximately $25.1 billion in 2010 (around 1.8% of GDP), thus recording an improvement against 2009 (in absolute terms and as GDP percentage). Interest spending fell by 10% y.o.y. in 2010, since there was no need to pay the GDP-linked coupons because the necessary conditions were not met[57]. The financial result was slightly positive (0.2% of GDP) (see Chart III.21).

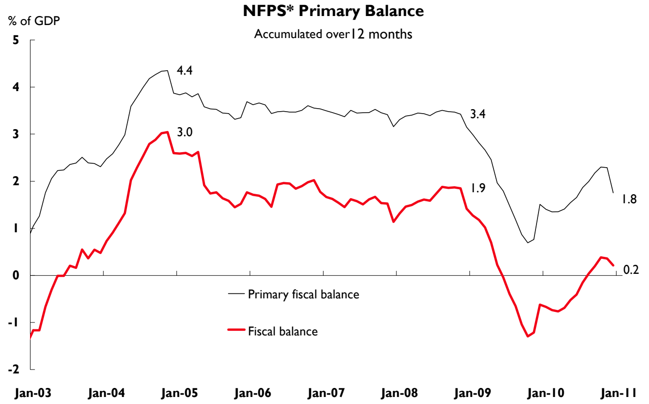
[56] For a more detailed analysis on revenue and spending of the Public Sector, see the Inflation Reports corresponding to the fourth quarter of 2010 and the first quarter of 2011.
[57] According to the 2005 swap prospectus, it was not necessary to pay these instruments since the 2009 economic growth (0.9%) did not exceed the base scenario for such year (3.29%).

Chart III.20
NFPS primary expenditure share*



* Includes automatic transfers to provinces; **Excludes capital transfers to provinces
Source: BCRA from Treasury Secretariat and INDEC data

Chart III.21
NFPS* Primary Balance
Accumulated over12 months



* Non-Financial National Public Sector*
Source: BCRA from Treasury Secretariat and INDEC data

Table III.2
Debt Placements of the Subnational Jurisdictions in the Market
(million US$)

Date	Jurisdiction	Amount (Cash value)	Currency	Annual rate of return	Term (years)	Structure
May-10	Ciudad Aut. de Buenos Aires	475	US$	12.50%	5	Bond
Aug-10	Córdoba	400	US$	12.37%	7	Bond
Aug-10	Chubut	150	US$	9.75%	10	Trust fund
Sep-10	Prov. Buenos Aires	550	US$	12.00%	5	Bond
Oct-10	Córdoba	196	US$	11.72%	7	Bond
Oct-10	Prov. Buenos Aires	250	US$	11.50%	5	Bond
Jan-11	Prov. Buenos Aires	750	US$	11.25%	10	Bond

Source: Bloomberg

During 2011, the tax revenue is expected to continue with its upward trend while primary spending would be on the rise mainly due to the scheduled increases of social security benefits, current transfers to the private sector (which address, among other adjustments, the increase of the amount of family allowances per child), as well as the estimated momentum of the capital spending. In this context, and after the recovery of 2010, the NFPS primary result corresponding to 2011 would remain with a positive sign.

Revenue from sub-national sources and the resources related to the federal tax revenue sharing continued to experience a remarkable momentum. In addition, the implementation of the Federal Program of Debt Reduction of the Argentine Provinces and the execution of the Federal Solidarity Fund (distributing 30% of export taxes on soybean and its derivatives among the provinces) helped the provinces to improve their finance during 2010. It is estimated that in 2011 some districts will continue issuing debt in international markets (see Table III.2), and this would enable them to finance part of their need for resources, together with funds from the National Treasury and multilateral organizations.

The public debt reduction policy continued and helped reduce the exposure to the private sector

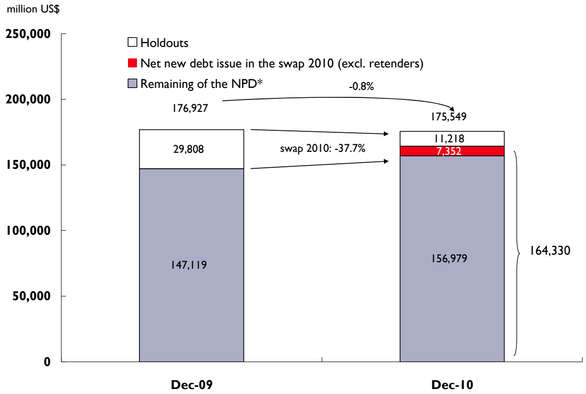
In 2010, the National Treasury met its financing needs mainly through the use of intra-public sector domestic funds, a strategy that would be replicated in the current year. By the end of 2010, the National Government laid down supplementary rules to the extension of National Budget 2010, while the setting up of the Argentine Debt Reduction Fund[58] and the payment with international reserves of free availability to the international financial organizations[59] were established once again.

The National Government continued with the normalization process of its liabilities, after the National Public Debt Swap by mid 2010. In December 2010, the swap announced in April was reopened[60], with a simplification of the transaction to favor the participation of retail debt holders. In addition, a swap operation of guaranteed bonds called “Brady”[61] was instrumented for an eligible amount of around US$331 million, reaching an 80.9% acceptance level. Considering the results of the 2005 restructuring and the different operations made in 2010, the regularization of the debt

[58] Decree N° 2.054/2010.
[59] Decree N°276/2011.
[60] Resolution MEyFP N° 866/2010.
[61] Resolution MEyFP N° 809/2010.

Chart III.22

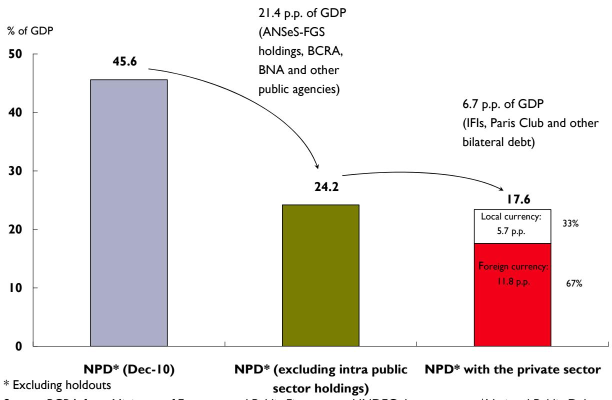
National Public Debt



Source: BCRA from Treasury Secretariat data *National Public Debt

Chart III.23

National Public Debt



* Excluding holdouts

Source: BCRA from Ministry of Economy and Public Finances, and INDEC data *National Public Debt

would amount to approximately 92% of the total debt eligible for the 2005 swap.

The National Public Debt kept on decreasing in GDP terms to 45.6%, despite the issues made under the 2010 restructuring framework (see Chart III.22). It is worth noting that only 39% of liabilities (17.6% of GDP) correspond to debt with the private sector (see Chart III.23). The other liabilities are mainly related to intra-public sector debt and debt with international organizations, having a lesser refinancing risk.

IV. Financial Sector

Summary

The financial sector continued expanding over the second half of 2010 accompanying the good economic and financial perspectives existing in the domestic context. Banks' financial intermediation with the private sector accelerated its growth pace over the last months of the year, practically returning to the dynamics observed prior to the international crisis. Institutional investors revalued their portfolios mainly due to an improvement in the prices of sovereign public securities and other fixed income instruments.

The rise in bank lending to the private sector over the second half of the year continued being boosted, primarily, by lending to the corporate sector, channeled mostly through private banks, even though public entities improved their performance during the last months of 2010. The expansion pace of loans granted to companies related to trade, industry, and services along the year should be highlighted. On the other hand, loans aimed at households also rose at a good pace particularly driven by consumption lines.

Private sector deposits increased their momentum in 2010 especially during the second half of the year, boosted by deposits in pesos which more than doubled the expansion pace observed in 2009. The growth rate of private sector deposits during the year was slightly higher in the case of national private and public entities which, therefore, gained share in the total balance.

Net worth of the consolidated financial system increased its momentum over the second half of the year funded mainly by book profits and, to a lesser extent, capital contributions. The leverage level of all bank groups evidenced a slight rise during the year. Capital compliance for the financial system stood at 17.7% of risk-weighted assets, slightly below the figure observed a year ago. All homogenous groups of banks exhibited significant surplus in their capital position.

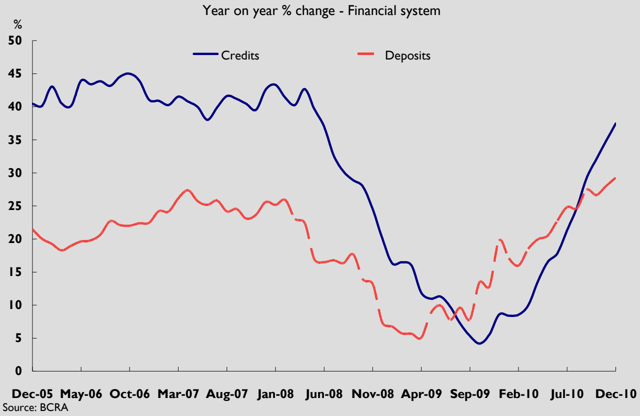
The financial system recorded book profits exceeding those of 2009 in all bank groups with an outstanding performance by public banks. Net income derived from interests continued being the main income source in a context of higher levels of intermediation and smaller spreads. Results obtained from securities evidenced a sharp momentum, together with the sustained recovery of the fixed income market, especially in the second half of the year. In line with the improvement observed in the quality of the private sector loan portfolio, loan loss provisions fell, particularly, at private banks.

Accompanying the macroeconomic scenario, sustained growth in banks' financial intermediation with companies and households is expected for 2011. Banks would continue accruing profits over the year and this would allow them to maintain their solvency levels and thus enhance the growing framework of financial funds being channeled to the private sector.

Chart IV.1

Financial Intermediation with the Private Sector

Year on year % change - Financial system

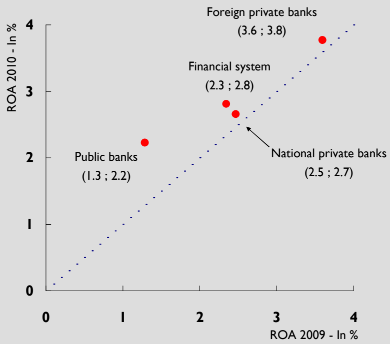


Source: BCRA

Chart IV.2

Profitability by Group of Banks

ROA



Source: BCRA

IV.1 Financial entities[62]

Activity

Financial intermediation activity continued increasing its expansion pace showing some dynamics similar to that observed prior to the international crisis

In line with the performance of the local economic context, financial intermediation of banks with the private sector over the last months of 2010 continued accelerating its growth pace. Thus, both lending and deposits by companies and households ended the year evidencing expansion rates that were significantly higher than those of late 2009, practically returning to the performance recorded before the international crisis (see Chart IV.1).

Lending to the private sector rose 50% in annualized (a.) terms over the second half of 2010, 23 p.p. more than in the first half of the year and 40 p.p. more than the in second half of 2009. Thus, credit granted to the private sector expanded 37.5% during the last year, gaining share in netted assets[63] of the financial system up to 41%, 1.5 p.p. above weighting by the end of 2009. Thus, the financial system is keeping the trend to increase lending to the private sector (see Table IV.1). More liquid assets also raised their relative significance in netted assets of the financial system over the last 12 months. On the other hand, public sector deposits (considering domestic and foreign currency) gained relevance in total funding to financial entities over the year.

The rise observed in lending to the private sector in 2010 (adding companies and households) was generalized among credit lines. Financing to exports, promissory notes, and credit cards rose above the average, gaining share in the total stock (see Chart IV.3). Particularly, promissory notes started to hold the greatest share in the loan portfolio of the private sector (21%), surpassing personal loans (20%).

All homogeneous groups of financial entities evidenced a rise in lending to the private sector in 2010. Over this period, national and foreign private banks exhibited the greatest momentum and were the ones contributing the most to the expansion of financing (accounting for over three fourths thereof) (see Chart IV.4), even though public banks raised their contribution in total lending supply over the last quarter of the year. From a longer time perspective, it may be seen that public banks

Table IV.1

Balance Sheet

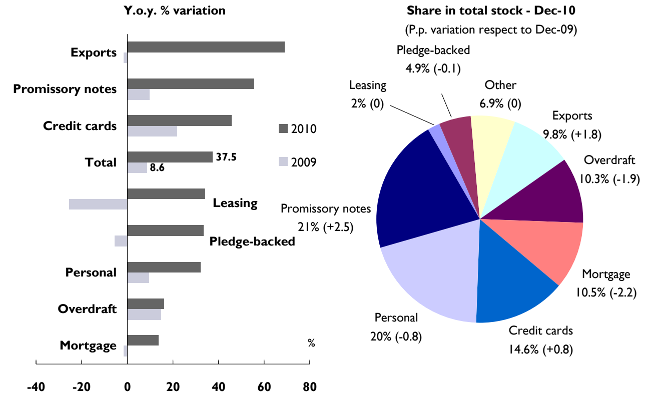
Financial system - As % of netted assets

	Dec-09	Jun-10	Dec-10	Change in p.p.		Stock variation	
				II Sem - 10	Y.o.y.	HII - 10 (%a.)	Last 12 months
Assets	100	100	100				
Liquid assets	21	24	22	-2.4	0.5	9	35
BCRA securities	10	11	13	1.8	3.3	81	78
Credit to the public sector	15	14	13	-1.1	-2.5	14	11
Credit to the private sector	41	40	42	2.1	1.4	49	37
Principal	40	39	41	2.1	1.5	50	37
Interests	1	1	1	0.0	-0.1	34	15
Other assets	13	11	10	-0.3	-2.7	26	5
Liablities + Net Worth	100	100	100				
Public sector deposits	19	24	24	-0.5	5.0	29	68
Private sector deposits	55	53	53	0.4	-1.3	37	29
Liabilities with the Central Bank	0	0	0	0.0	0.0	-4	-3
Outs. bonds, sub. debt and foreign lines of credit	3	2	2	-0.3	-0.9	4	-8
Other liabilities	10	8	9	0.5	-1.5	50	13
Net worth	13	12	12	-0.1	-1.3	32	19

Source: BCRA

Chart IV.3

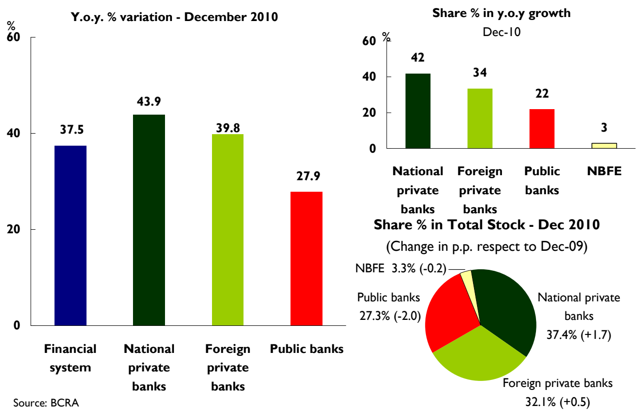
Loans to the Private Sector Balance Stock by Type of Line



Source: BCRA

Chart IV.4

Loans to the Private Sector by Group of Banks



Source: BCRA

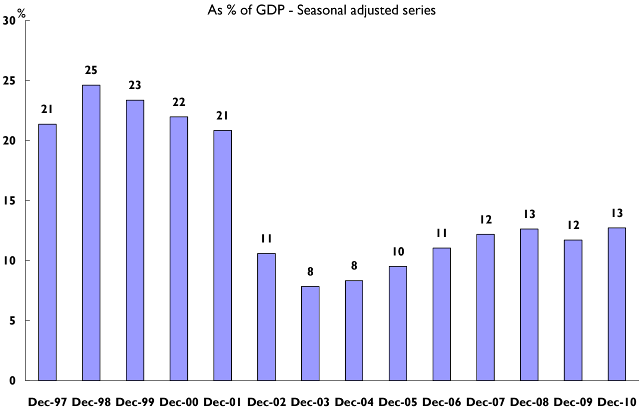
[62] Only financial entities regulated and supervised by the BCRA are included in the analysis herein (Act N°21.526).

[63] Those net of accounting duplications inherent to the recording of repurchase agreements, term transactions or unsettled spot transactions.

Chart IV.5

Credit to the Private Sector / GDP

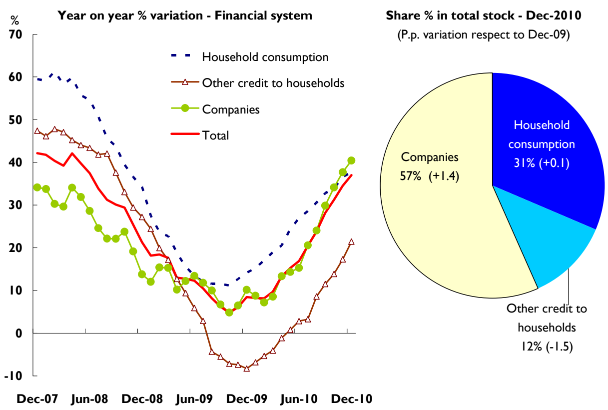
As % of GDP - Seasonal adjusted series



Source: BCRA and INDEC

Chart IV.6

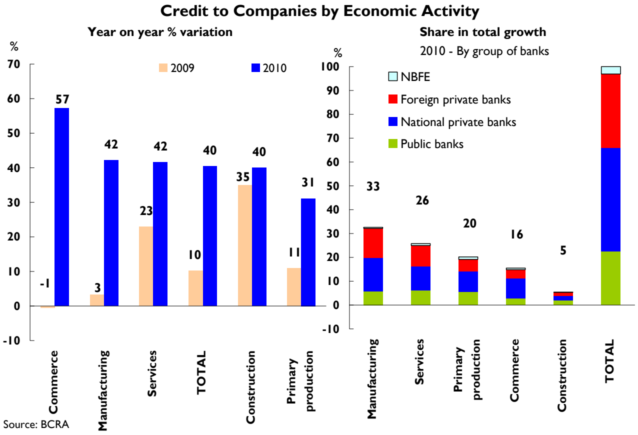
Credit to the Private Sector



Source: BCRA

Chart IV.7

Credit to Companies by Economic Activity



Source: BCRA

increased their lending to the private sector almost 28%, annual average between 2008 and 2010, whilst private banks did so by almost 21%.

In this context, bank credit to companies and households accounted for almost 13% of GDP by the end of 2010 (see Chart IV.5), approximately 1 p.p. above the figure recorded in 2009 and 5 p.p. more than the minimum observed following the 2001-2002 crisis. Nevertheless, this ratio remains relatively low against its own history and when compared to other emerging countries; this evidences the ample development potential of lending to the private sector in the domestic financial system.

Interest rates charged on loans to the private sector performed differently over the last months with a marked reduction in the cost of personal loans and some increases in the case of credit cards, overdrafts, and mortgage loans while promissory notes and pledge-backed loans did not show significant changes. Nevertheless, when making a comparison between both ends of the year, a generalized fall in lending interest rates was observed by late 2010. The most relevant fall among commercial lines was observed in overdrafts while, in the case of loans for consumption purposes, personal loans recorded a greater reduction. Pledge-backed loans exhibited a slight decline in their costs while the line of mortgage loans evidenced some y.o.y. rise in its interest rates.

Lending to the private sector continued accelerating boosted, primarily, by lending to companies

Like in the first half of the year, lending to the private sector continued being primarily boosted by loans to the corporate sector[64] by late 2010. These loans increased 40% during the year, slightly more than total loans to families and even exceeding credit for households' consumption (see Chart IV.6). Therefore, financing to companies increased its share in the stock of lending to the private sector by 1.4 p.p. over the last 12 months, accounting for 57% of the total.

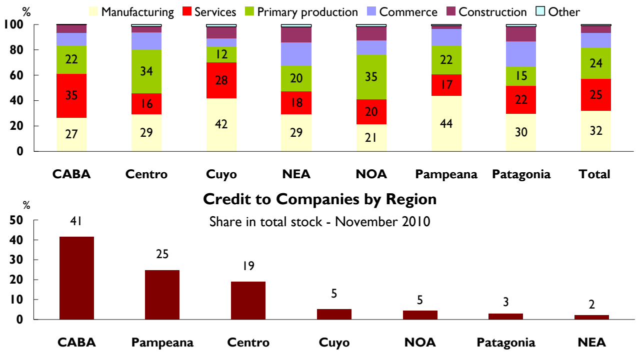
Loans to trade, industry and services were the most dynamic in 2010, in a context where all productive sectors improved their performance against 2009 (see Section III.2). In addition, loans to the industrial sector and companies providing services accounted for almost 60% of the rise of financing to companies during the year. National private banks should be highlighted as the

[64] Loans to companies are those granted to legal persons and commercial loans to individuals. The remaining loans to individuals are considered within the households headings.

Chart IV.8

Credit to Companies by Region and Economic Activity

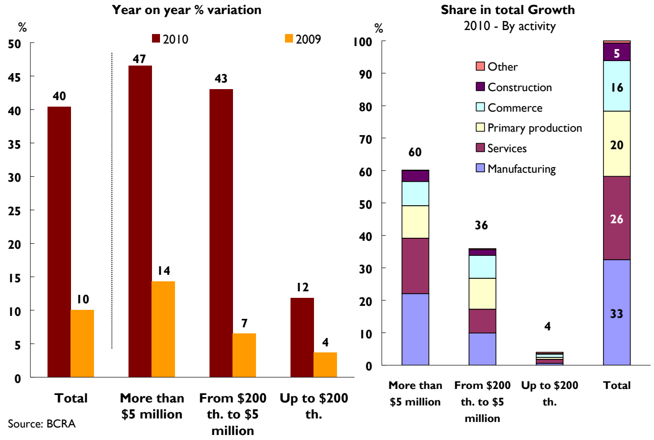
November 2010



Source: BCRA Debtors database / AFIP´s taxpayers register

Chart IV.9

Credit to Companies by Residual Stock Range

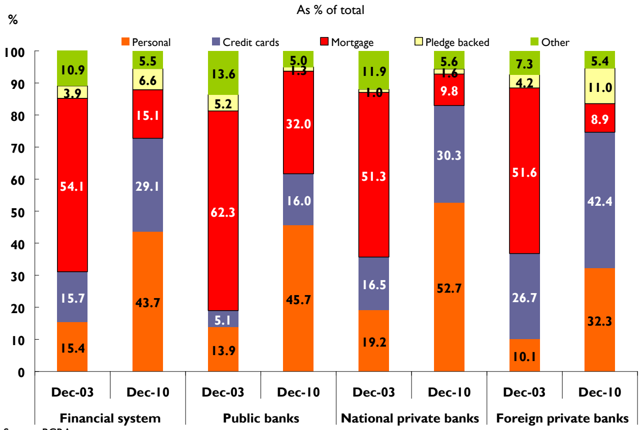


Source: BCRA

Chart IV.10

Credit to Households

As % of total



Source: BCRA

main credit suppliers in all productive sectors, even in the case of construction, where they exhibited the greatest contribution together with public banks (see Chart IV.7).

Manufacturing, services and primary production continued being the activities with the largest share in the total stock of financing to the corporate sector (with a proportion of 32%, 25% and 24% respectively and, as a whole, accounting for 81% of the total). Lending to manufacturing records the greatest relative weight in the regions known as Pampeana, Cuyo, Patagonia and Argentine North East (NEA). Loans to the sector providing services account for over a third of the total in the City of Buenos Aires (a region that concentrates 41% of total credit to companies), a proportion that falls for the rest of the country (see Chart IV.8). On the other hand, financing for primary production is relatively more important in the regions Centro and Argentine North West (NOA).

Over 2010, an increase in the expansion pace of all segments by residual range of lending to companies was observed against the year before, and the relative improvement in the performance of the segment ranging from $200,000 up to $5 million should be noted, particularly when considering the great momentum it exhibited over the last part of the year (see Chart IV.9). Loans with a grater relative size (exceeding $5 million) accounted for 60% of the growth in corporate financing and they were channeled primarily to manufacturing and services. The remaining increase was contributed by smaller segments and was allocated in a more uniform fashion among the different productive activities.

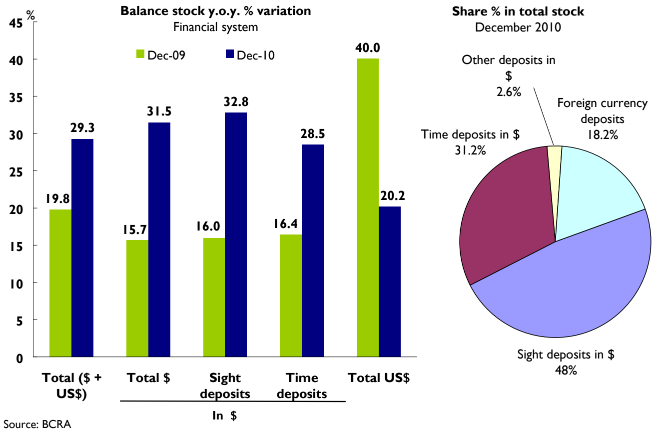
Within the framework of the Bicentenary Productive Financing Program[65], the purpose of which is to increase longer term bank lending supply in pesos to the productive sector, the BCRA has held four fund auctions so far for a total amount allocated of $1.26 billion among 9 financial entities (two thirds of the amount correspond to public banks) out of a total of $8 billion for such Program. It already has 100 projects approved by the assessment units from the Ministries of Industry, Finance and Agriculture, and the performance of the automobile spare parts sector as well as biofuels, poultry, among other sectors[66] should be highlighted. In all cases, the annual nominal interest rate to be paid by financial entities was set at 9% of funds allocated. With such funding, entities will grant credit at a total financial cost of 9.9%. Funds allocated to financial entities are backed

[65] See Communication “A” 5089.

[66] Information as per the Ministry of Industry.

Chart IV.11

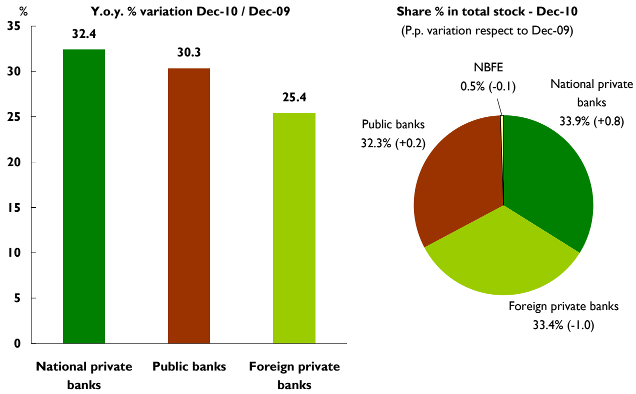
Non-Financial Private Sector Deposits



Source: BCRA

Chart IV.12

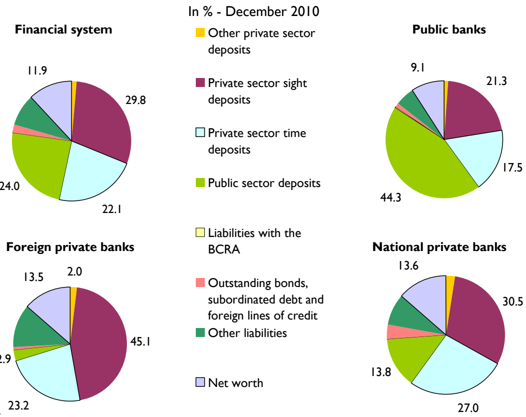
Private Sector Deposits by Group of Financial Entities



Source: BCRA

Chart IV.13

Funding Composition by Group of Financial Entities



Source: BCRA

by financial assets whose debtor or guarantor is the Federal State.

The consumption loan portfolio continued gaining share in the total stock of lending to families

Loans aimed at households increased 33% in 2010 (accelerating by the end of the year) mostly led by consumption lines, which rose 38% (credit cards climbed 46% and personal loans, 32%). Loans with real collateral exhibited a 19% hike over the year boosted, primarily, by pledge-backed loans (49%), given that mortgage loans evidenced a more moderate growth (9%). This trend, which shows that the consumption portfolio has more relevance in total lending to households, has been observed over the last years in all groups of financial entities, even though it is not so marked in the case of public banks (see Chart IV.10).

Exposure to the public sector falls

Together with the rise of financing to the private sector, financial entities' exposure to the public sector fell gradually during both the first and second half of 2010 until reaching 12.2% of total assets, a movement that was primarily accounted for by official banks. The balance of public sector deposits within all financial entities continues above the level of lending granted to this sector by an amount equivalent to 10.5% of total assets.

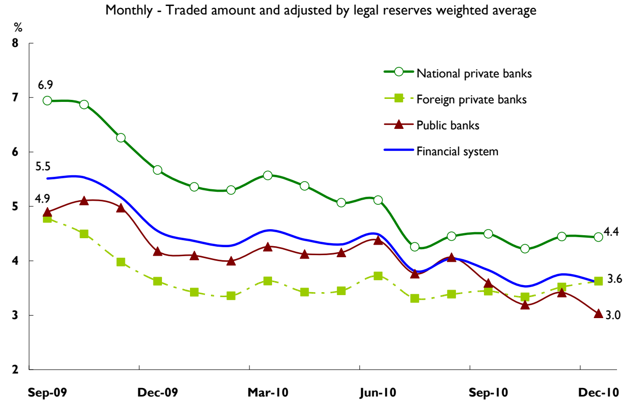
Total deposits raised their growth rate boosted both by public and private sector deposits

Balance sheet total deposits stock (considering domestic and foreign currency) continued increasing at a good pace over the second half of the year and so it expanded 38.4% in 2010, 23.3 p.p. more than in the previous year.

Even though public sector total deposits slowed down their expansion pace over the second half of the year, they exhibited relatively greater y.o.y. momentum (they grew 67.7%), driven by time deposits (+78.6%) and sight accounts (+61.8%). Thus, they gained share in banks' total funding against 2009. Public sector deposits in pesos expanded 56.4% over the year.

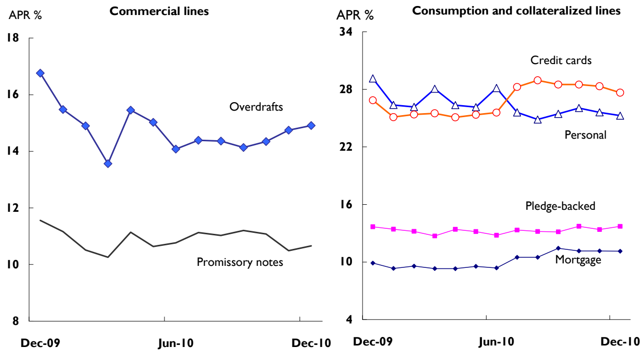
Private sector deposits accelerated their growth rate over the last months of 2010. Thus, they increased 29.3% over the year mainly driven by those in pesos. Sight and time deposits in pesos increased 32.8% and 28.5% respectively in 2010, exceeding the pace recorded in 2009 significantly (see Chart IV.11). Deposits in foreign currency climbed 20.2% over the last 12 months, almost 20 p.p. below the year before. Private sector deposits grew in all bank groups during 2010, and the pace

Chart IV.14
Estimation of Total Deposits in Pesos Funding Cost
Monthly - Traded amount and adjusted by legal reserves weighted average



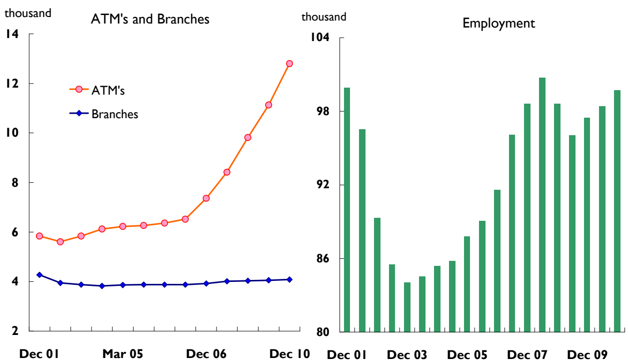
Source: BCRA, SISCEN

Chart IV.15
Interest Rates Spread - Credit to the Private Sector
Transactions in pesos - Financial system



* Mortgage loans interest rates include fixed interest rate and adjustable interest rate operations
Source: SISCEN, BCRA

Chart IV.16
Financial System Operational Structure



Note: Branches include Head office, headquartes, agencies and offices.
Source: BCRA

shown by national private and public entities should be underscored as they gained share in the total stock (see Chart IV.12).

Companies and households deposits accounted for 53% of netted assets of the financial system by the end of 2010 (sight deposits, 29% and time deposits, 22%[67]). These deposits were the greatest funding source of private banks (both national and foreign) (see Chart IV.13), whilst public sector deposits were the main funding source of public entities.

The estimated funding cost for deposits in pesos[68] continued falling in the last part of 2010, accentuating the trend observed over the first months of the year (see Chart IV.14). This movement was essentially explained by the gradual increase in the share of sight deposits (which also decreased their interest rates in the second half of the year[69]) in the total stock of deposits, while time deposits costs in pesos ended the year at values similar to those observed by the end of 2009[70]. This fall in the cost of funding over the year, together with an even more relevant drop in lending interest rates of commercial loans and of personal loans, resulted in a reduction of spreads in these lines. Credit cards and loans with real collateral evidenced slighter reductions in their interest rates over the course of 2010; therefore, some increase in the spread was observed in these lines over the period (see Chart IV.15).

On the other hand, the share of corporate bonds (ON), subordinated bonds (OS) and foreign lines in the total funding of the financial system continued being reduced and falling in 2010. It may well happen that, as long as good conditions remain present in domestic and international capital markets, this situation will start to reverse slowly accompanied by new issues that have started being recorded in the capital market.

Geographical infrastructure coverage by the financial system continued increasing

The evolution of employment and the operating infrastructure of the financial system continued accompanying progress on financial intermediation and the provision of payment means. The financial system payroll increased 1.3% during the second part of the year, accumulating a 2.3% hike in 2010 and, therefore, it

[67] The difference corresponds, mainly, to fixed stocks and other private sector deposits not considered in specific accounts.
[68] Weighted based on the volume traded for the financial system.
[69] In addition, no interest has been acknowledged since May 2010 on deposit in current accounts, on special deposits for corporations and on sight accounts opened in cooperative credit accounts.
[70] Interest rates on time transactions in pesos increased over the second half of the year recovering from the falls observed during the first half of the year.

Box 4 / Implementation of a Survey on Credit Conditions in Argentina

Having a suitable analysis on the performance of an economy's credit market is an element of utmost relevance when preparing the financial and monetary policy of Central Banks. In this regard, several countries have implemented qualitative opinion polls on the credit market over the last decades which became one of the pillars at the time of designing and implementing policy measures. Following this trend, the BCRA started to carry out a study known as a Survey on Credit Conditions [*Encuesta de Condiciones de Crediticias* (ECC)] with a set of entities. Such survey has shown that, at present, the domestic market would be exhibiting a trend towards making credit supply more flexible coupled with a growing demand

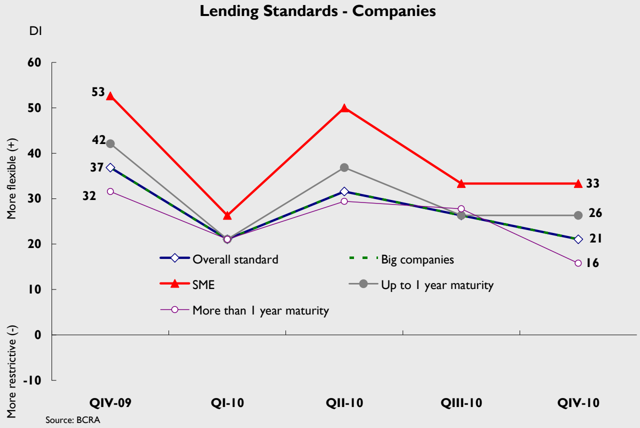
Several monetary entities from developed countries, like the United States, the European Union, England, and Canada, as well as some emerging economies, which include Chile, Hungary, and Lithuania, have implemented opinion polls of a qualitative nature over the last decades aimed at those responsible for lending of financial entities. The purpose of these polls is to obtain additional information on credit supply; particularly regarding factors that have an influence on financial entities when deciding about this, as well as on the perception banks have regarding demand. Thus, traditional statistics that Central Banks have are complemented with information that comes directly from the opinion held by market players.

The analysis of this qualitative information may contribute to designing, implementing and monitoring financial and monetary policies of Central Banks. In this regard, it allows a faster adjustment of public policies in view of changes in the situation of the credit market and contributes to improving the preparation of forecasts regarding the assessment of macroeconomic variables; it also improves the diagnosis of the monetary policy transmission through the credit channel and tends to enhance available tools to conduct a macroprudential control of the financial system.

After considering these advantages, the BCRA recently advanced on the preparation and implementation of a Survey on Credit Conditions (ECC) in the domestic financial market, thereby expanding available information on lending channeled to the corporate sector (in terms of working capital, and investment) as well as finance aimed at meeting needs related to consumption and investment of households. The purpose of the ECC is to obtain information on changes introduced by financial entities in their credit standards (in other words, the set of aspects considered by banks to approve loans), on financial terms and conditions of loans (terms, spreads, maximum amounts, commissions, among other issues) as well as on the perception regarding the performance of demand. The information is studied taking into account financing to companies (classifying them by size, and term for which the loan was granted) and to households (including mortgage loans, pledge-backed loans, credit cards and other consumption loans).

Twenty financial entities participate in the ECC (including public, private with national, foreign and cooperative capital entities), which represent about 90% of the market. The number of entities which make up the sample does not allow identifying any bank in particular, considering its value in terms of business strategies. In December 2009, the first ECC quarterly wave of the five conducted so far was carried out with a basis of 18 permanent multiple choice questions. For most questions, possible answers range from "More Flexible" (MF), "Moderately more flexible" (M+F), to "Moderately more restrictive" (M+R) and "More restrictive" (MR), with an option for "No changes".

Chart B.4.1
Lending Standards - Companies

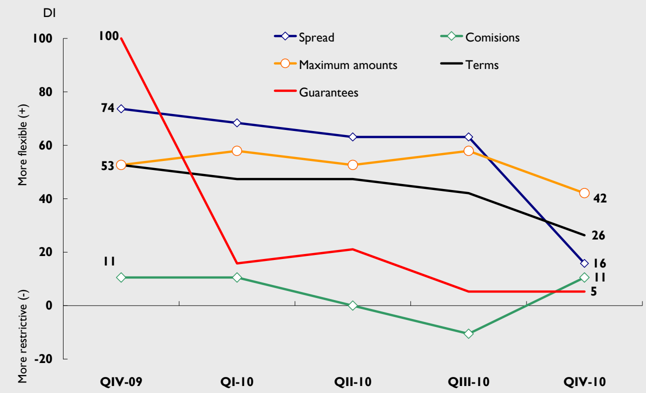


Source: BCRA

According to the answers obtained, indicators were created to represent the major trends in the loans market. Thus, the Diffusion Index (ID) is regularly prepared, which considers the direction and magnitude of the global evolution of every aspect considered in the survey. The ID is prepared as the difference between the percentage of responses showing more flexibility in each question (MF and M+F options), and the percentage corresponding to answers with the opposite idea (MR and M+R). The ID may vary from 100% to -100%; with positive values, it indicates there is evidence showing more flexibility and, in the case of negative values, it indicates there is a trend towards more restrictions.

Results obtained in the ECC regarding the lines granted to companies show that in the five waves conducted, banks have kept a trend, at an aggregate level, towards more flexibility in credit standards, a situation that is reflected in an ID with a positive sign (see Chart B.4.1). This trend was similar at a general level of financing, in the segments of large companies, small and medium-sized enterprises, as well as in short term lines (less than a year). This movement is of a cumulative nature at the level of the entities surveyed given that answers received correspond to changes observed regarding the immediate previous quarter. Making these standards flexible over the period studied has been connected to sector improvements and the positive macroeconomic context, and the decrease of risk in the credit portfolio gained more relevance, as well as banks' expansion decisions and growing competition. The survey started being carried out at the end of 2009, when the local impact derived from the international crisis was relevant in the evolution of economic activity in general and in the financial sector in particular.

Chart B.4.2
Financial Terms and Conditions of Credit to Companies

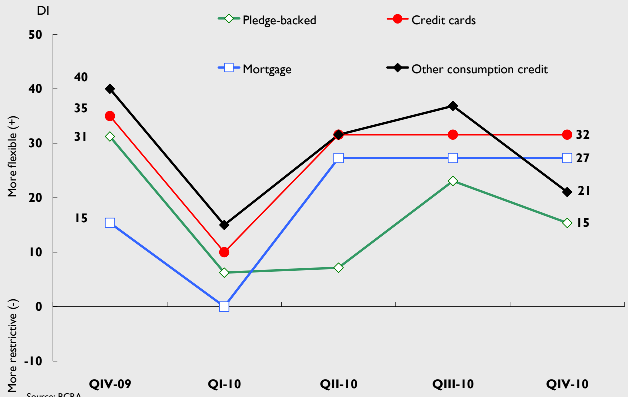


Source: BCRA

Most financial terms and conditions applied to new loans granted to companies evidenced, at an aggregate level of entities, a trend towards more flexibility between the fourth quarter of 2009 and the same period in 2010 (see Chart B.4.2). Spreads in the funding cost exhibited a fall while maximum amounts increased; guarantees demanded evidenced a gradual fall and granting terms were extended. Commissions have shown periods of decline although the increased by mid-2010 (a greater restriction). Meanwhile, banks exhibited a generalized rise in the demand for credit by companies in all the periods studied reflecting companies' growing sales, more investments in fixed assets and, to a lesser extent, lower interest rates.

Credit standards corresponding to all lines aimed at households have recorded more flexibility over the last quarters[71] (see Chart B.4.3), being primarily influenced by the improvements observed in the macroeconomic context and entities' decisions to raise their market share. Financial conditions of loans granted to households have evidenced more flexibility, especially in the case of spreads (with the exception of mortgage loans with some minor restriction), maximum amounts and terms; meanwhile, commissions have been more restrictive (particularly regarding consumption loans). According to the perception held by banks surveyed, demand for credit by households increased in all the waves of the ECC, and it was relatively more intense in the case of consumption loans. Increasing income by the population and labor improvements boosted this trend primarily.

Chart B.4.3
Lending Standards - Household



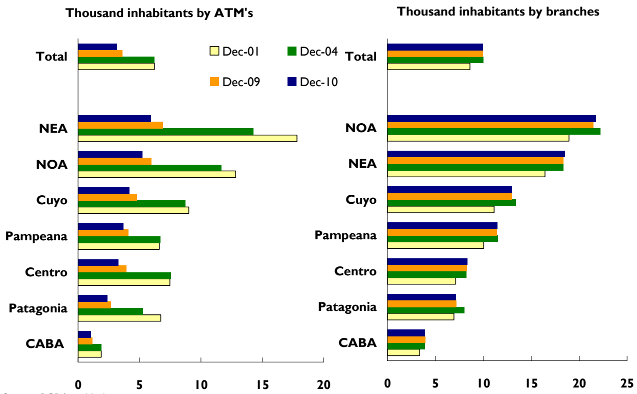
Source: BCRA

Entities are also asked about their future perspectives. All waves have shown forecasts of more flexible standards and increases in demand, a situation that was later verified, in general lines, against what happened. Thus, the ECC is gradually incorporating additional useful information to prepare the financial strategy of the BCRA.

[71] Only isolated cases of entities with more restrictive standards were observed in the first two waves of the ECC

Chart IV.17

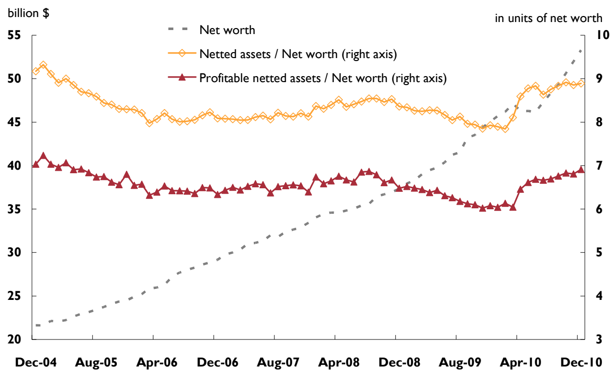
Financial System Regional Coverage



Source: BCRA and Indec

Chart IV.18

Consolidated Financial System Leverage



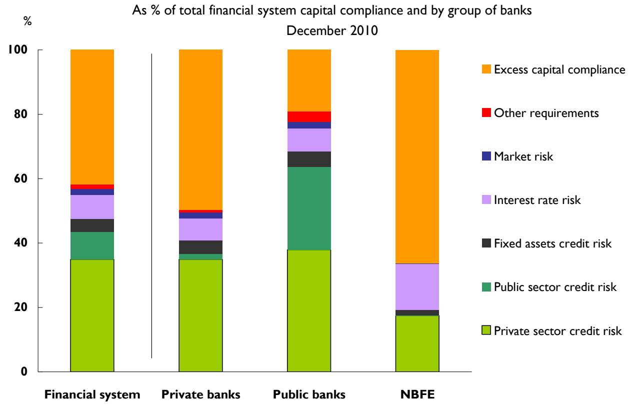
Source: BCRA

Chart IV.19

Prudential Requirement and Capital Compliance

As % of total financial system capital compliance and by group of banks

December 2010



Source: BCRA

practically returned to the levels observed prior to the international crisis. On the other hand, the number of automatic teller machines (ATM) rose 8.4% during the last six months (15% in all 2010), while the number of branches remained relatively stable over the year (increasing 0.7%) (see Chart IV.16).

The availability of financial services infrastructure among different jurisdictions in the country remains evidencing sharp heterogeneity (for further detailed information, see Box 5). Northern regions (Argentine North East and Argentine North West) keep coverage levels, through branches and automatic teller machines, which are significantly lower than the levels in Buenos Aires City and in the Patagonia (see Chart IV.17). Nevertheless, even though no relevant changes have been observed over the last years in relation to the population/branches ratio, areas less supplied have recorded some progress on the indicator referring to coverage through automatic teller machines. More specifically, in 2010 the ratio inhabitants/ATM fell in all regions in the country and progress made by regions in the Argentine North East (NEA) and Argentine North West (NOA) should be highlighted. The gap existing between the region recording more and less coverage was 2.5 times, less than half of the amount recorded before the 2001-2002 crisis.

The Central Bank has been promoting a set of measure that are aligned with the purpose of continuing fostering banking expansion among the population, particularly, in regions with scarce or insufficient supply of financial services (see Box 5 for further detailed information).

Capital position

The growth pace of the financial system net worth accelerated over the second half of the year

Financial system consolidated net worth expanded 18.2% in 2010, evidencing greater momentum over the second half of the year partly because dividends were allocated in some private banks during the first part of the year. Net worth was mainly funded by book profits accrued during 2010 and, to a lesser extent, new capital contributions, which totaled $135 million.

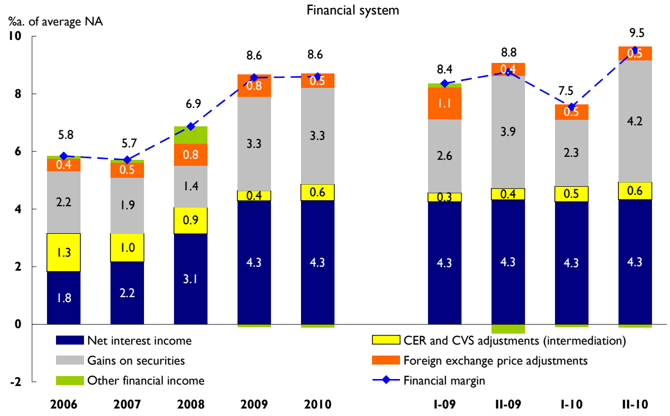
The leverage level in the financial system increased slightly over the last months influenced by greater momentum in lending to the private sector (see Chart IV.18). Thus, netted assets accounted for about 9 times the level of net worth for the financial system. All homogeneous groups of financial entities exhibited a hike in their leverage level.

Table IV.2
Profitability Structure: Financial System
In annualized terms - As % of average netted assets

	93-00	2008	2009	2010	I-10	II-10
Financial margin	6.1	6.7	8.6	8.6	7.5	9.5
Net interest income	4.9	3.1	4.3	4.3	4.3	4.3
CER y CVS adjustments	0.0	0.9	0.4	0.6	0.5	0.6
Gains on securities	0.8	1.4	3.3	3.3	2.3	4.2
Foreign exchange price adjustments	0.0	0.8	0.8	0.5	0.5	0.5
Other financial income	0.3	0.4	-0.1	-0.1	-0.1	-0.1
Service income margin	3.5	3.6	3.9	3.8	3.8	3.9
Operating costs	-6.7	-6.1	-6.7	-6.8	-6.9	-6.8
Loan loss provisions	-2.2	-0.9	-1.1	-0.8	-0.8	-0.8
Adjustments to the valuation of gov. securities (*)	-	-0.6	-0.1	-0.1	-0.1	0.0
Tax charges	-0.5	-0.8	-1.0	-1.0	-0.9	-1.0
Amortization payments for court-ordered releases	-	-0.3	-0.2	-0.2	-0.2	-0.1
Other	0.7	0.5	0.3	0.4	0.5	0.3
Income tax	-0.3	-0.4	-1.3	-1.2	-0.8	-1.5
ROA	**0.5**	**1.6**	**2.3**	**2.8**	**2.3**	**3.3**
ROE	3.4	13.4	19.2	24.4	19.1	29.3
Adjusted ROA (**)	**-**	**2.5**	**2.6**	**3.0**	**2.5**	**3.5**

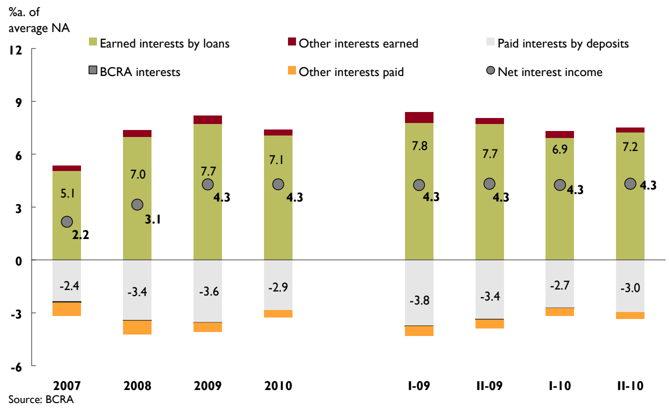
(*) Com. "A" 3911 and complementary communications.
(**) Excluding amortization of payments for court-ordered releases.
Source: BCRA

Chart IV.20
Financial Margin Composition
Financial system



Source: BCRA

Chart IV.21
Net Interest Income
Financial system



Source: BCRA

The capital compliance ratio remained stable during the second part of the year, even though it evidenced a slight reduction in the cumulative level of 2010, standing at 17.7% of risk-weighted assets (APR). The framework of lending deepening to households and companies (particularly over the second half of the year), combined with a year where dividends exceeding those of previous periods were allocated, was reflected in a slight decrease in capital compliance ratio, mainly, at private banks. However, all homogeneous groups of banks recorded a surplus of capital compliance in the face of regulatory requirement (see Chart IV.19).

All homogeneous groups of banks improved their profits

Financial system book profits over the second half of 2010 amounted to $7.35 billion, 66% above the figure recorded in the first half, ending the year at $11.75 billion. Banks' ROA totaled 3.3%a. over the second half of the year, 1 p.p. more than during the first six months partly as a result of the recovery of results from securities (see Table IV.2). Therefore, the financial system ended the year with ROA at 2.8%, recording a y.o.y. increase of 0.5 p.p. of assets. The y.o.y. rise in profits was observed in all bank groups with a sharp improvement in the case of public banks (see Chart IV.2).

Financial system's results derived from interests did not change over the six-month period under study, in a context of higher levels of financial intermediation and lower spreads

Banks' financial margin stood at 9.5% of assets over the last six months of the year, recording a 2 p.p. hike in the six-month period (see Chart IV.20). However, from an annual standpoint, the financial margin remained stable, with a reduction in the case of private banks (both national and foreign) which was offset by the rise observed in public banks.

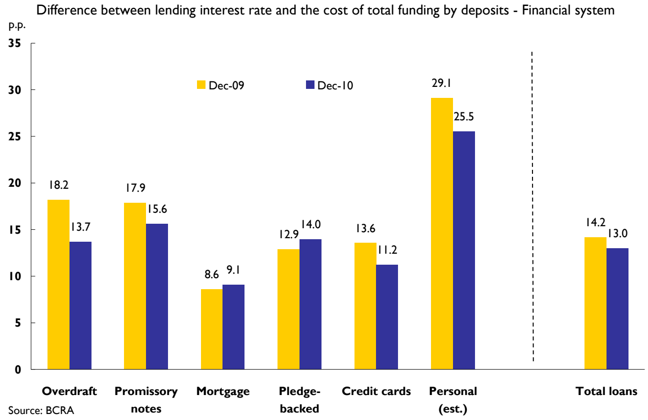
Net income derived from interest remained being the main income source for banks. Over the second half of the year, these results accounted for 4.3% of assets, staying at a level similar to that of the first half of 2010 (see Chart IV.21). In a context where the level of financial intermediation with the private sector is deepening, lower spread levels of implicit interest rates[72] were observed (see Chart IV.22). Particularly, in 2010 a decline in the implicit interest rate of almost all credit

[72] The implicit lending rate for every credit line is calculated as income accrued from interest in year to date terms over the stock of every line of performing loans. The implicit funding cost for deposits is calculated as expenditure accrued from interest on deposits in year to date terms over the stock of total net deposits of the legal minimum reserve requirement. The spread is calculated as the difference between both rates.

Chart IV.22

Spread on Implicit Lending Interest Rates to the Private Sector and Total Deposits

Difference between lending interest rate and the cost of total funding by deposits - Financial system



Source: BCRA

Chart IV.3

Profitability Structure by Type of Bank

As % of average netted assets - 2010

	Private banks			Public banks	NBFE
	Total	National	Foreign		
Financial margin	9.3	8.8	9.9	7.2	39.5
Net interest income	5.5	5.0	6.0	2.2	37.4
CER y CVS adjustments	0.1	0.1	0.1	1.2	0.0
Gains on securities	3.2	3.4	2.9	3.6	1.0
Foreign exchange price adjustments	0.6	0.5	0.8	0.3	1.8
Other financial income	-0.1	-0.2	0.0	-0.1	-0.7
Service income margin	4.8	4.9	4.8	2.4	12.6
Operating costs	-8.0	-8.0	-8.1	-5.1	-24.5
Loan loss provisions	-1.0	-1.0	-0.9	-0.4	-9.4
Adjustments to the valuation of gov. securities (*)	0.0	0.0	0.0	-0.1	0.0
Tax charges	-1.2	-1.4	-1.0	-0.6	-4.0
Amortization payments for court-ordered releases	-0.2	-0.2	-0.1	-0.1	0.0
Other	0.6	0.6	0.6	0.1	3.5
Income tax	-1.2	-1.0	-1.4	-1.1	-6.5
ROA	**3.2**	**2.7**	**3.8**	**2.2**	**11.2**
ROE	24.6	21.3	28.1	25.5	31.1
Adjusted ROA (**)	**3.3**	**2.9**	**3.9**	**2.5**	**11.2**

(*) Com. "A" 3911 and complementary communications.

(**) Excluding amortization of payments for court-ordered releases.

Source: BCRA

lines aimed at the private sector was observed. This reduction was greater than the one recorded in the total cost of funding through deposits. It should be noted that net income resulting from interests exhibited some rise in the group of private banks while it decreased slightly in the case of public banks and so the former were above the latter (see Table IV.3).

The result obtained from securities remained relatively high in 2010 (3.3% of assets), especially in the framework of the sustained recovery of the fixed income market over the second part of the year (see Section II.2). Public banks boosted this rise even though this concept of results was relevant in all groups of financial entities.

In a context of low foreign exchange volatility and lower foreign currency mismatching, a slight fall in results on account of exchange rate differences was recorded

In a context where the mismatching of CER-adjusted balance sheet items decreased slightly in terms of net worth (see Section V.4), this income increased a little slightly over the year in line with the coefficient evolution. Thus, CER-linked adjustments amounted to 0.6% of assets in 2010, slightly above the figure recorded a year ago, a dynamics that was essentially explained by public banks. Meanwhile, results accumulated due to exchange rate differences in 2010 were lower than in 2009 (see Chart IV.23), partly due to lower foreign currency mismatching and limited exchange rate volatility (see Section V.3), an effect that was more significant in the case of public banks.

Results derived from services fell slightly over the year as a consequence of more spending related to commissions[73]. Income through services grew at a lower pace, boosted, primarily, by income associated with credit and other income[74]. Public banks explained the y.o.y. fall of results from services and it was partly offset by private banks (both national and foreign) which exhibited minor rises (see Chart IV.24).

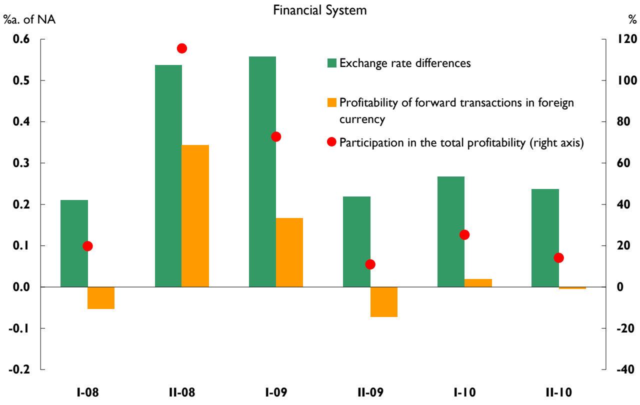
Operating costs continued growing whilst banks reduced charges on loan loss provisions

Operating costs increased moderately in 2010 with a similar growth pace in both parts of the year. The rise was driven by national and foreign private banks while public banks reduced their weighting for this expenditure gradually against their assets. The rise of

[73] Commissions for services are mostly channeled to networks that supply automatic teller machines, among others.

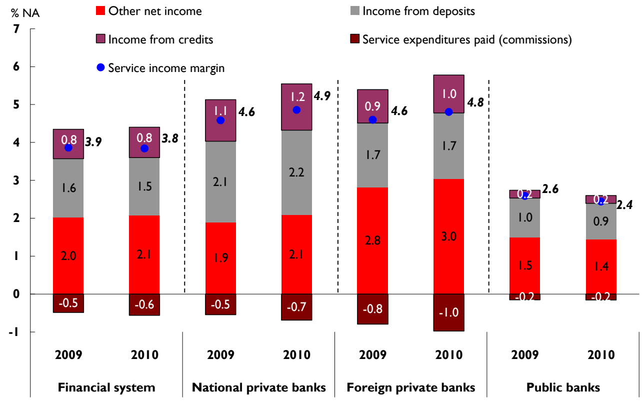
[74] The sub-item "other income" is partly derived from income related to the sale of insurance and the issuance of credit cards.

Chart IV.23
Foreign Currency Mismatch Effects on Profitability
Financial System



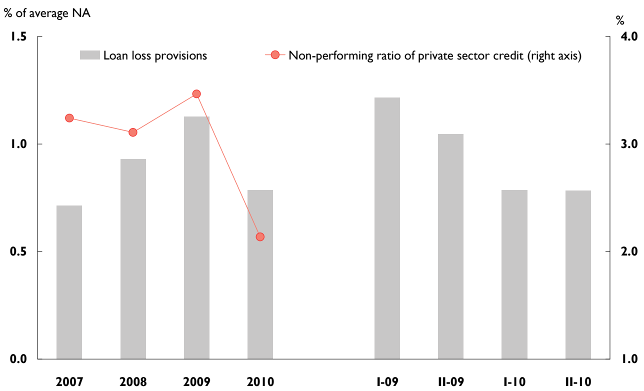
Source: BCRA

Chart IV.24
Service Income Margin



Source: BCRA

Chart IV.25
Loan Loss Provisions



Source: BCRA

expenditure was primarily boosted by spending in personnel[75], which accounts for over 60% thereof. Thus, operating costs amounted to 6.9% of assets in 2010. Despite this rise in expenditure, more stable income (derived from interests and services) continues exceeding operating costs (119%).

In a context where the quality of credit portfolio is improving, loan loss provisions lost relevance during the year. Even though this reduction took place in all bank groups, it was primarily boosted by private financial entities (national and foreign) within a framework where public banks already had low levels of these charges. Thus loan loss provisions dropped 0.3 p.p. of assets during the first half of 2010 down to 0.8%., remaining unchanged by the end of the year (see Chart IV.25).

Tax expenditures fell slightly in 2010, especially, in the case of private banks. On the other hand, the amortization of payments for court-ordered releases and adjustments derived from loans to the public sector (items affected by the 2001-2002 crisis) accounted for 0.3% of assets, a record similar to that of the year before.

With favorable predictions regarding the level of financial intermediation, the financial system is expected to start the year 2011 consolidating its solvency levels

In a scenario recording perspectives of deep bank activity, banks are expected to start 2011 with book profits that will allow them to enhance their solvency levels. As anticipated, greater intermediation activity would be reflected in an increase of income due to interest and services. In addition, as per the performance of the quality of the loan portfolio to the private sector, loan loss provisions would remain at reduced levels. On the other hand, and in view of a framework where funds and services pertaining to the banking sector are expanding, operating costs could evidence a gradual rise.

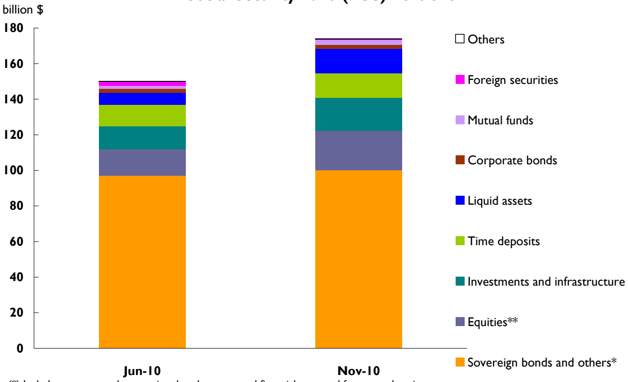
It has been estimated that financial entities will likely pay dividends again in 2011, although the recent implementation of a capital conservation ratio by the BCRA would allow continuing consolidating the soundness of the financial system. In addition, in order to simplify valuation criteria for debt instruments of the public sector and monetary regulation instruments of the BCRA, a new regulation will become effective in March 2011 which is aligned with international recommendations, aimed at reducing accounting

[75] Spending in personnel includes wages and social security contributions.

valuation differences of these assets against their market prices.

Chart IV.26

Social Security Fund (FGS) Portfolio



(*) Includes state-owned enterprises bonds, structured financial trust and futures and options contracts.
(**) Includes equities of privatized companies.
Source: FGS

IV.2 Institutional Investors

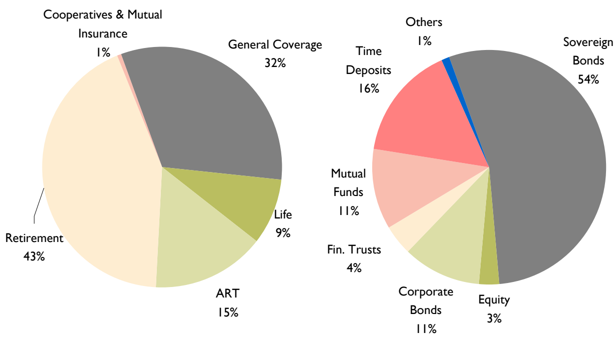
The portfolio of institutional investors continues exhibiting momentum driven by the improvement of sovereign bond prices

Investments of the three lead groups of institutional investors at a domestic level (the *Fondo de Garantía de Sustentabilidad* (FGS) -Guarantee Sustainability Fund-, insurance companies and mutual funds (FCI)), continued growing over the last months until reaching an aggregate amount estimated at $244 billion in December 2010[76]. In nominal terms, the value of investments shows some growth, against June of the same year, of 16% and 21% y.o.y.[77]. Most of the performance shown by the aggregate portfolio of institutional investors over the period is explained by the evolution of fixed income instrument prices[78], which represent about 60% of the total.

Chart IV.27

Insurance Companies' Portfolio Composition

Total Investments by Sep-10: $47,5 billion, by branch & asset class

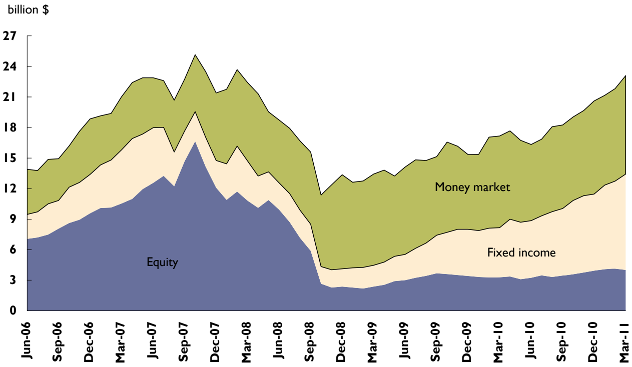


Source: BCRA from SSN data

Regarding the portfolio managed by the FGS, the major domestic institutional investor since the change in the social security system in October 2008, with information up to November 2010[79], it amounts to $174.015 billion and evidences an improvement of 16% against June 2010 (see Chart IV.26) and of 24% against late 2009. Like in the case of other institutional investors, most of the revaluation of the FGS portfolio in 2010 is related to the increase in prices of sovereign public bonds and other fixed income instruments, which account for 59% of the total. Domestic shares (the second most important item in investments which equals 13% of the total portfolio), the prices of which exhibited a significant hike, contributed to the portfolio growth. Meanwhile, investments in productive and infrastructure projects, which are currently the third most important item and which represent 11% of the total of the portfolio, have increased 47% since June 2010 and 122% since late 2009, as a result of new payments made for projects that are mostly being conducted at present. In 2010, the FGS implemented a policy of unwinding of positions in foreign assets[80] in favor of investments in infrastructure

[76] Or latest available information. In gross terms (without consolidating).
[77] Growth also took place in terms of GDP, given that the aggregate portfolio accounted for 14% of GDP in June 2010 and 15.5% by the end of that year.
[78] By way of reference, parities of sovereign public bonds grew, on average, about 30% over the second half of 2010 and more than 20% during the year.
[79] Latest information available.
[80] They accounted for 4.8% of the portfolio in December 2009 and 0.3% in November 2010.

Chart IV.28
Mutual Funds Net Worth Evolution



Note: Mixed funds are included in equity funds, time deposits are included in money market funds.
Source: BCRA from Cámara Argentina de FCI data.

and productive projects, time deposits and availabilities[81].

Assets of insurance companies (CS) totaled $67.6 billion at December 2010 (according to the latest information available). Their investment portfolio accounts for 73% of total assets of CS keeping the portfolio/assets ratio stable during 2010. By mid-2010, the portfolio grew in excess of 10% (21% y.o.y.), explained, in the case of investments, by a 22% rise in the share of FCI and an increase of $1.85 billion (equivalent to an 8% growth level) in sovereign bonds. Regarding the structure of investments, depending on the type of activity, over this period companies related to Workers' Compensation Insurers (ART) have exhibited a more dynamic performance (growing 23%). Nevertheless, and when considering the performance of the aggregate portfolio, it is primarily explained by the increase in the area of general insurance (see Chart IV.27), which rose over $1.7 billion.

In the case of FCI, total equity by the end of the year amounted to almost $20.6 billion, rising 26% against late June (34% in y.o.y. terms), continuing the positive trend that was observed over the course of 2010. The growing weighting that fixed income funds started to gain since late 2008 should be highlighted which, over the second half of 2010, accounted for an average of 37% of the total equity of FCI (see Chart IV.28). Thus, and accompanying the improvement in prices, the rise observed in fixed income funds since June (above 30%) accounts for more than 40% of the entire equity increase of FCIs. On the other hand, funds aimed at money markets remain losing share over the total, even though they have grown in excess of 22% against June of last year.

[81] These last two items accumulated hikes against June amounting to 10% and 110%, respectively (since late 2009, improvement totaled 42% and 242% y.o.y., respectively).

V. Financial System Risks

Summary

The financial system continued to maintain limited exposure to its main intrinsic risks, together with significant levels of coverage. Leading soundness indicators stood at high levels, a sign of the robust nature of the system. In line with the favorable path of the local economy, banks maintained their intermediation growth trend, although still recording low levels of financial depth.

Despite a slight drop in liquidity indicators in the second half of the year, the financial system continued to hold high reserves in the form of liquid assets. Interbank markets gradually increased their depth, while the main interest rates in the economy maintained only limited volatility. As a result, financial institutions have preserved an adequate position when considering the liquidity risk faced.

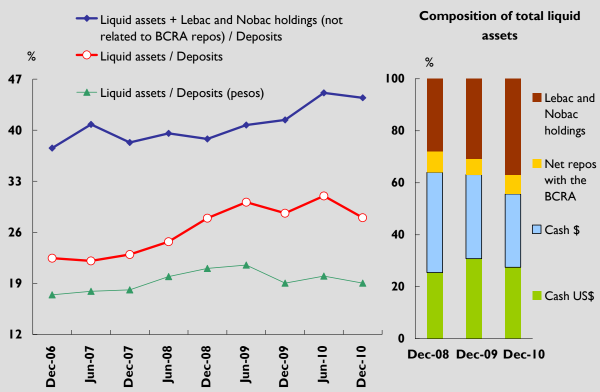
Mainly as a consequence of the dynamism seen in the second half of the year, in 2010 the financial system showed an increase in its exposure to the private sector, at the same time as delinquency continued to decline. Financial institutions maintain significant provision coverage for non-performing loans. Positive performance by the real economy impacted favorably on the payment capacity of companies and households, at the same time as private sector indebtedness remained at moderate levels. These factors contributed to keeping bank credit risk at a low level.

Banks continue to show a low level of exposure to currency risk. Mismatching faced by the system between assets and liabilities in foreign currency, including transactions with foreign currency derivatives, declined in 2010. This performance, combined with exchange rate volatility that has remained at a moderate level, reduced bank exposure to currency risk.

The moderate level of variation that interest rates have been recording has helped hold a limited bank exposure to the risk from interest rates. Financial system exposure to market risk increased moderately in 2010, based on the greater relative weight of assets with market quotation in bank portfolios. Nevertheless, market risk continues to account for a low proportion of total financial system risk.

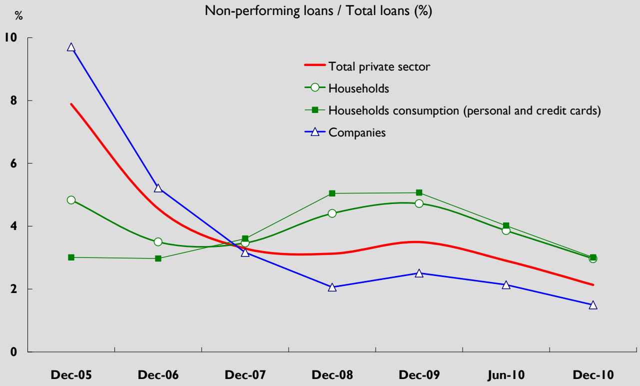
Overall, the favorable trend in the configuration of risks faced by banks has been maintained. The positive macroeconomic situation expected for coming months, the comfortable level of coverage ensured by banks through their accounting provisions, added to the sector's solvency levels, generate prospects for increased relative strength for the local banking system.

Chart V.1
Liquidity
Financial System



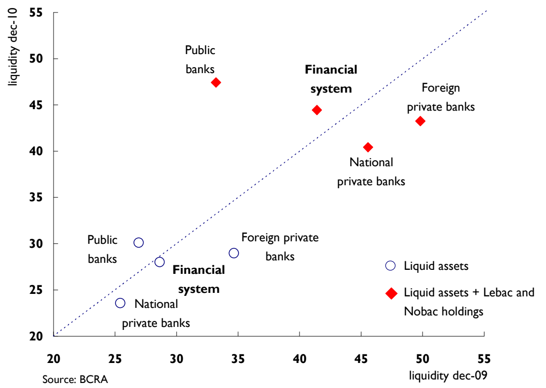
Source: BCRA

Chart V.2
Non-Performing Loans to the Private Sector
Non-performing loans / Total loans (%)



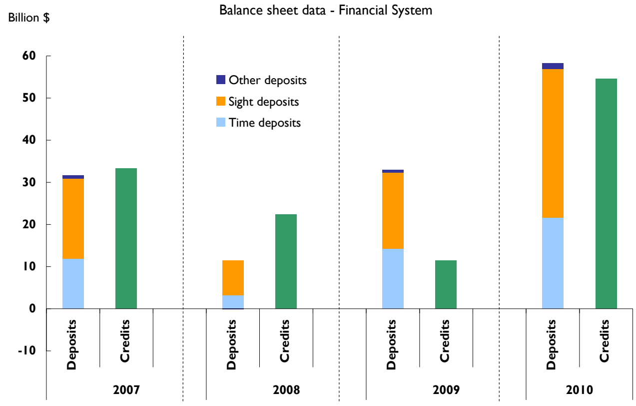
Source: BCRA

Chart V.3
Liquidity by Group of Financial Entities
% of non-financial deposits



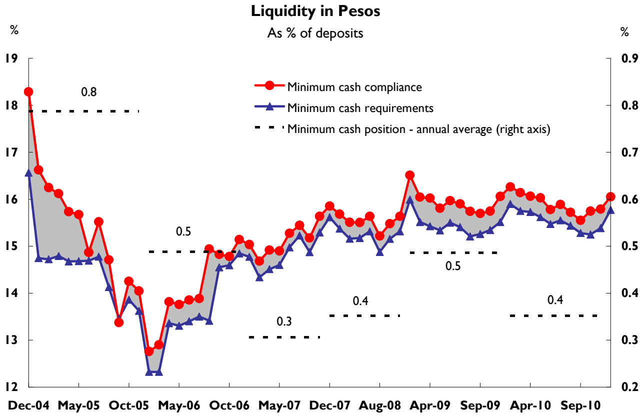
Source: BCRA

Chart V.4
Change in Deposits and Credits to the Private al Sector
Balance sheet data - Financial System



Source: BCRA

Chart V.5
Liquidity in Pesos
As % of deposits



Source: BCRA

V.1 Liquidity risk

The financial system has maintained its position in relation to liquidity risk

In 2010, a period of macroeconomic stability with low interest and exchange rate volatility, the financial system maintained solid coverage for liquidity risk. Banks continued to be able to count on instruments to manage the liquidity risk faced, at the same time as they recorded an increase in their financial intermediation with the private sector. In addition, it should be taken into account that the Central Bank has full power to act as a lender of last resort, in accordance with the law and current regulations.

Financial system liquid assets[82] in domestic and foreign currency fell slightly in terms of total deposits during the year, to a level of 28%[83], mainly following the performance recorded in the second half. In general terms, the liquidity indicator is in line with the average for the region (see Page 23). If holdings of Lebac and Nobac not linked to repo transactions with the Central Bank are taken into account, over the year as a whole total liquidity for the banking system rose to 44.4% of deposits, despite the reduction in recent months. As a result, holdings of Central Bank bills and notes have increased their share in greater relative liquid assets (see Chart V.1).

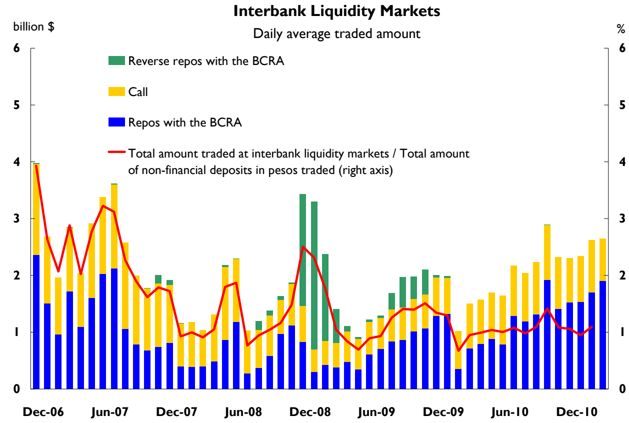
National and foreign private financial institutions saw a slight reduction in their liquidity indicators during the year, while public banks posted an increase (see Chart V.3). This different performance by the two groups of banks has to a certain extent been due to the acceleration in the growth of lending to companies and households recorded in 2010. In the second half of the year the liquidity indicator declined for all uniform groups of banks.

Private sector deposits continued to gain strength as the main source of financial system funding, showing a significant rise in 2010 that helped meet greater demand for credit from the private sector (see Chart V.4).

Overall, bank funding from deposit-taking experienced a slight shortening of its maturity during the year. Private sector sight deposits reached 56% of total sector deposits at the end of the year, a moderate increase in their share compared with 12 months earlier. This rise was partly

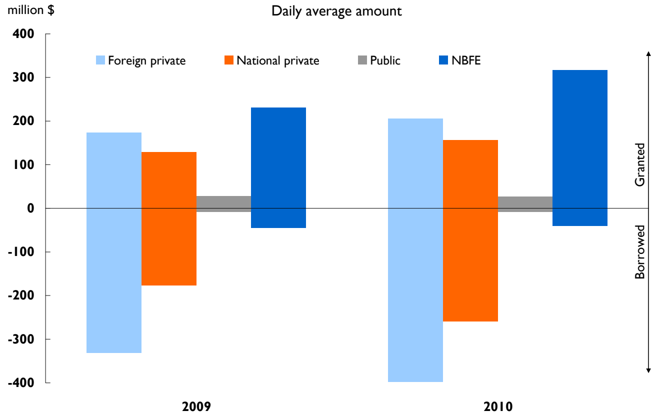
[82] Including cash, current accounts at the Central Bank, and net repos with the Central Bank using Lebac and Nobac.
[83] Financial system liquidity in domestic currency totaled 19.1% of deposits in pesos at the end of 2010, a level similar to that of the end of the previous year.

Chart V.6
Interbank Liquidity Markets
Daily average traded amount



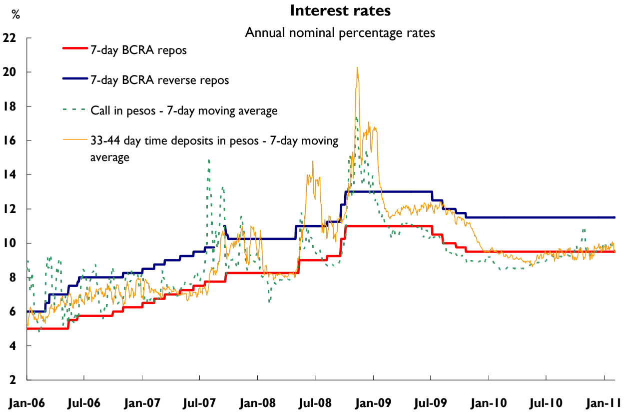
Source: BCRA

Chart V.7
Call Market
Daily average amount



Source: BCRA

Chart V.8
Interest rates
Annual nominal percentage rates



Source: BCRA

offset by a slight lengthening in the maturity of time deposits.

The financial system continued to meet regulatory liquidity requirements easily. In the domestic currency segment, at the end of 2010 financial system compliance exceeded minimum cash requirements by 0.5% of deposits, slightly under the level recorded at the close of the previous year (see Chart V.5). Excess compliance in relation to foreign currency deposits ended the year at 48% of deposits in such currency, showing a decline resulting from the increased growth in loans compared with deposits.

Trading volumes on the interbank repo market have continued to rise

Over the course of the year, trading volumes on interbank markets continued to increase, mainly from the rise in repo transactions between banks (see Chart V.6). Non-bank financial institutions and public banks continued to position themselves as net providers of funds in the call market in 2010, while demand for resources came from private banks (see Chart V.7). Despite the slight increase seen in the second half of 2010, interest rates showed only limited volatility during the year, ending 2010 at levels lower than those recorded in 2009 (see Chart V.8). In 2010, interest rates on repos and reverse repos traded with the Central Bank were unchanged.

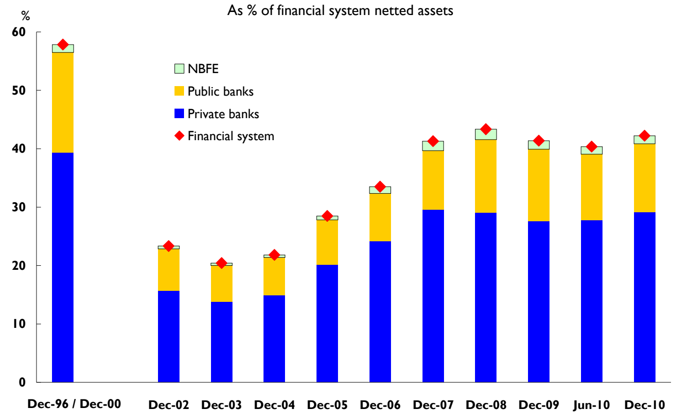
While liquidity risk coverage will be maintained, there is expected to be a gradual reduction in financial system liquid assets, in line with the growing dynamism of lending to the private sector

Some reduction in liquid assets is expected in 2011, following a gradual increase in resources allocated to financing the private sector. The strength of the banking system in the face of liquidity risk is not expected to be affected. Within the framework of the macro-prudential policies implemented by the Central Bank, the managed float exchange rate strategy adopted generates conditions for the avoidance of excessive volatility by the nominal exchange rate, and in so doing helps to preserve growth in domestic currency deposits within the financial system.

V.2 Credit risk

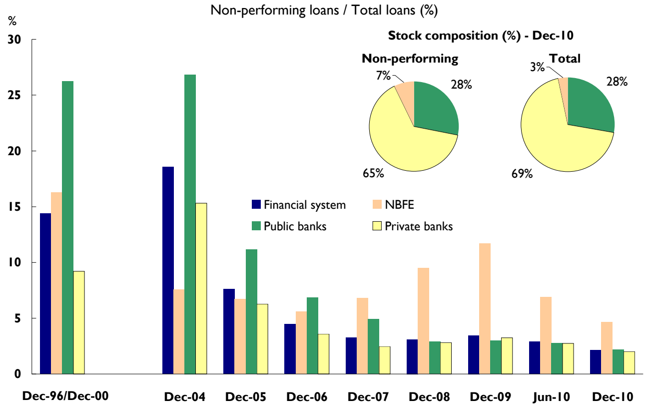
V.2.1 Private Sector

Chart V.9
Loans to Non-Financial Private Sector
As % of financial system netted assets



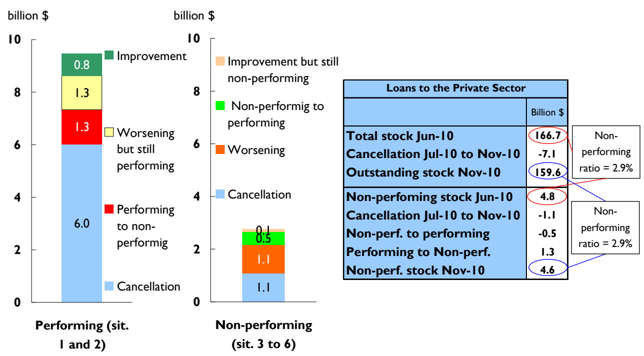
Source: BCRA

Chart V.10
Non-Performing Loans to the Private Sector
Non-performing loans / Total loans (%)



Source: BCRA

Chart V.11
Loans to the Private Sector Evolution
Change in credit stock between Jun-10 and Nov-10*



*Note: last available data
Source: BCRA

The relative significance of private sector lending has increased, while bank balance sheet exposure to credit risk has remained at a low level

Financial system exposure to companies and families ended the year at a higher level that in 2009 (see Chart V.9), mainly from the faster growth in lending to the private sector seen in the second half of 2010. This performance was mainly led by private banks, although public banks recorded an increase in its lending towards the end of the year. A steady increase in economic activity, among other factors, explained the improvement in private sector repayment capacity, strengthening the position of financial institutions in the face of the credit risk assumed. In this context, in 2010 there was an increase banking intermediation at the same time as a reduction in non-performing loans.

Delinquency in lending to the private sector was down in 2010 across all groups of financial entities

The private sector lending non-performing ratio stood at 2.1% at the end of 2010. Over the course of the year the level of delinquency posted a drop of 1.4 p.p. compared with the end of 2009 (0.7 p.p. of this decline taking place in the second half), and affected all groups of financial institution (see Chart V.10). The improvement in portfolio quality was widespread in credit lines for companies and households[84], with a notable contribution from the performance by consumer loans (see Chart V.2).

Outstanding loans at mid-2010 maintained their situation in the second part of the year. The non-performance ratio for these loans stood at 2.9% in November (latest available information), similar to the figure recorded in June 2010 (see Chart V.11). It is estimated that the more recent the origination of the loans to the private sector that were outstanding at the end of 2010, the lower their delinquency ratio (see Chart V.12). Debtors accessing the financial system during the years of the recent international financial crisis are showing a relatively higher non-performance ratio than those incorporated to the system prior to 2006 and in 2010.

During the year provisions for non-performing loans were increased further. The coverage indicator continued to improve for all groups of financial entities, exceeding 100% in all cases (see Chart V.13).

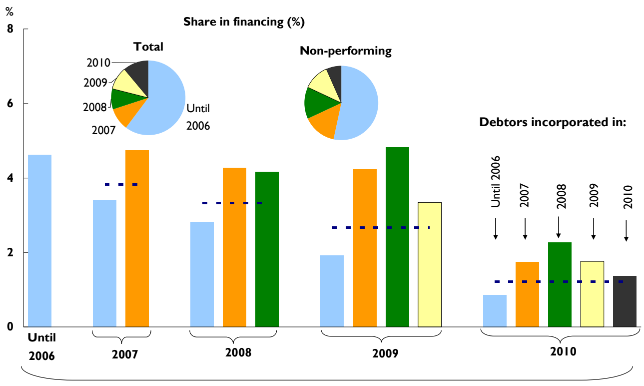
---

[84] See Note 64.

Chart V.12

Lending to the Private Sector by Granted Period - Estimation

Non-performing loans / Total loans (%) - Estimation - 2010

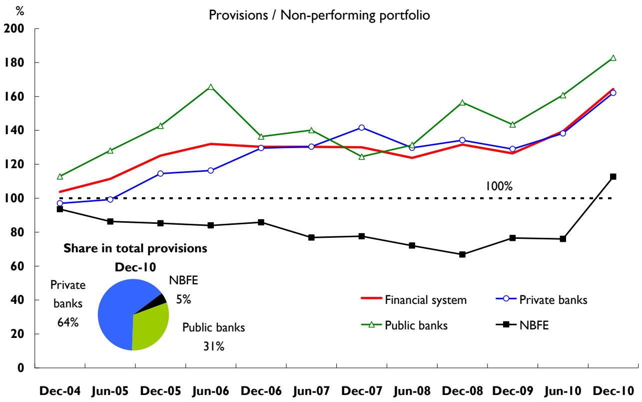


Source: BCRA

Chart V.13

Loan Loss Provisions

Provisions / Non-performing portfolio

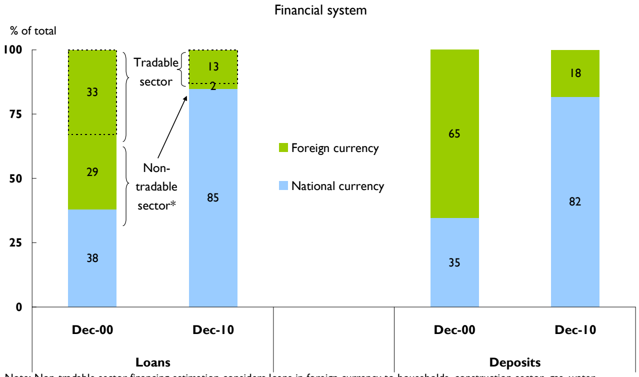


Source: BCRA

Chart V.14

Financial Intermediation with the Private Sector by Currency

Financial system



Note: Non-tradable sector financing estimation considers loans in foreign currency to households, construction sector, gas, water, electricity and other services

Source: BCRA

The strengths of the local financial system include in particular the sound position it shows in relation to credit risk derived from volatility in the peso-dollar exchange rate. Lending to the private sector in foreign currency remained at moderate levels, being channeled to those sectors recording foreign currency income (see Chart V.14). It should be noted that this risk has been restricted in the financial system by current prudential regulations that constrain the granting of loans in foreign currency mainly to sectors with revenue positively correlated to the performance of the exchange rate.

Lending to the private sector is expected to gradually increase its relative importance, and the financial system would maintain a sound position in the face of credit risk

Positive macroeconomic prospects generate a suitable environment for the gradual development of the credit market in coming months, with an expected deepening of the role of lending in total financial system assets, at the same time as debtor payment capacity will hold steady. The development potential for the credit market in 2011 can be inferred in part from the expected growth in aggregate demand, combined with moderate levels of indebtedness by firms and households. These prospects coincide with market expectations arising from Central Bank surveys as part of its Survey on Credit Conditions (ECC) (see Box 4). In this scenario the banking system is expected to maintain its favorable position in the face of credit risk.

Companies

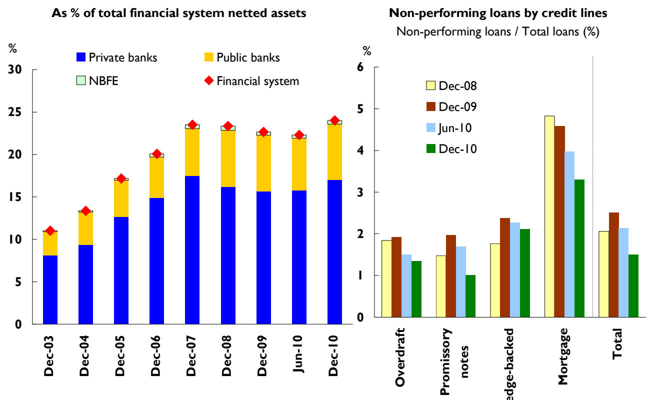
Lending to companies led the rise in bank exposure to the private sector, at the same time as a reduction took place in company loan portfolio delinquency

The corporate sector led the acceleration in lending growth seen during the year, so that particularly during the second half of 2010 the financial system increased its exposure to the corporate sector (see Chart V.15). At aggregate level, this sector recorded moderate levels of indebtedness, in a context in which the positive domestic economic performance (see Section III.2) led to an improvement in payment capacity of companies.

The non-performing ratio for loans to the corporate sector stood at 1.5% at the end of 2010, declining 1 p.p. in year-on-year terms, mainly because of the performance recorded in the second half of the year. This improvement in portfolio quality for the year was

Chart V.15

Companies Financing

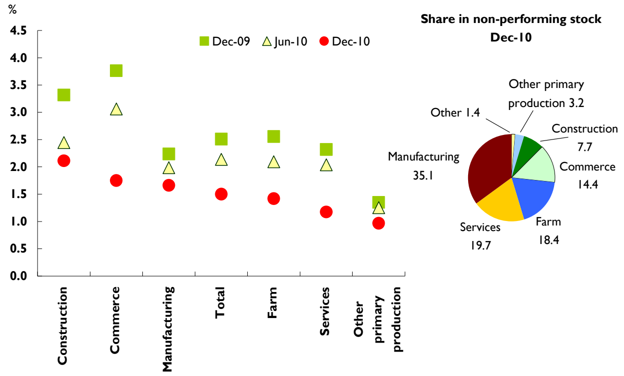


Source: BCRA

Chart V.16

Non-Performing Loans to Companies by Economic Sector

Non-performing loans / Total financing (%) - Financial system

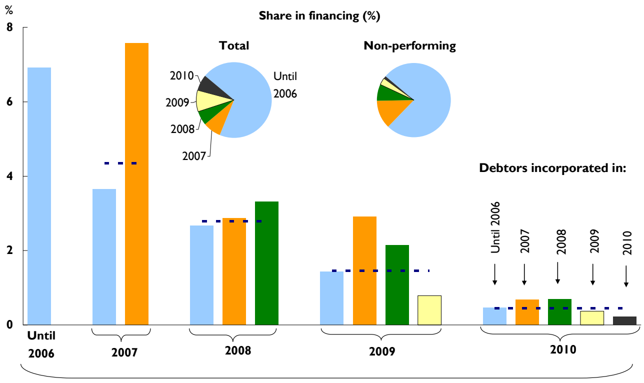


Source: BCRA

Chart V.17

Lending to Companies by Granted Period - Estimation

Non-performing loans / Total loans (%) - 2010



Source: BCRA

widespread across credit lines granted to companies, with promissory notes and overdrafts continuing to show the best relative performances. A reduction in delinquency was also observed in all productive sectors (see Chart V.16), with a notable drop in commerce and construction.

Company loans outstanding at the end of the year appear to show a higher non-performing ratio the earlier they were granted. Loans granted to companies until 2006 record above-average delinquency (see Chart V.17), although they represent less than 10% of the stock of loans in this segment.

Local banking system is expected to continue to increase its exposure to the corporate sector, while maintaining a reduced counterpart risk

A sustained increase is expected for activity levels in the various productive sectors in 2011. Companies will increase their use of financial system resources (see Chart V.18), although they are expected to continue to maintain moderate levels of overall indebtedness. During the rest of the year is expected an increase in the exposure of the financial system to credit risk from SMEs, although rising from a very low level.

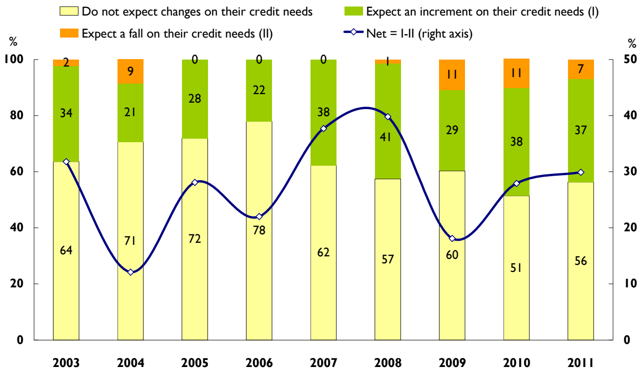
Households

Portfolio delinquency has continued to decline as financial system exposure to households has risen slightly

Financial system exposure to households ended 2010 at a slightly higher level than that seen in 2009 (see Chart V.19), mainly from the performance recorded by consumer credit lines in the second half of the year. During this period there was a decline in household loan portfolio delinquency across all credit lines, in part reflecting the impact of the improvement in the employment market on the sector's payment capacity (see Page 42). As a result, the situation of the financial system in the face of this risk is favorable.

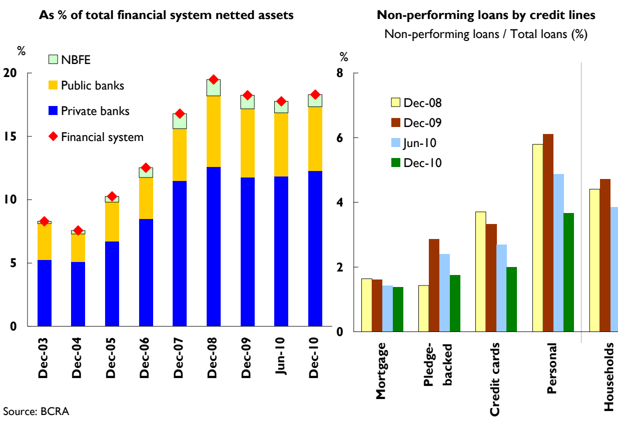
Households recorded a level of delinquency equivalent to 3% of loans at the end of 2010, a drop of 1.8 p.p. for the year. Consumer loans ended the year with a non-performance level close to the average for the credit lines for the sector, leading the reduction in delinquency from both the growth in total stock and the drop in delinquent loan totals (see Chart V.20). Credit granted to households between 2007 and 2009 to debtors entering the financial system in that period show a delinquency level higher than average for the sector (see

Chart V.18
Financing Needs Expected for Manufacturing Sector
Y. o. y. % variation



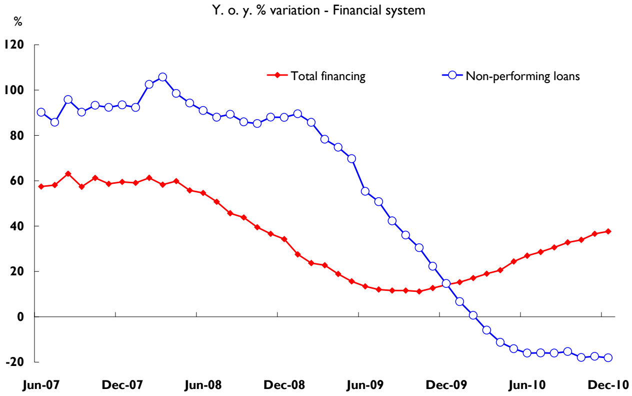
Source: EMI - Qualitative information - INDEC

Chart V.19
Household Financing



Source: BCRA

Chart V.20
Total and Non-Performing Loans - Consumer Loans
Y. o. y. % variation - Financial system



Source: BCRA

Chart V.21), although their performance is gradually improving.

Household payment capacity is expected to continue without major change, in context of limited credit risk

It is expected that household payment capacity will continue to show some gradual improvement, based on the positive outlook for the labor market. In a similar manner, it is expected that current policies for development and social inclusion will improve income levels of the lower-income segments of the population, generating a positive impact on the aggregate payment capacity of the sector.

This segment of the credit market will continue to develop at a similar pace in 2011, with growing demand foreseen for consumer loans in particular. Expectations for economic growth, in a context of the availability of banking liquidity and low and declining levels of debtor portfolio arrears, will generate conditions enabling a majority of banks to increase their household financing offer.

Based on this outlook, it is expected that credit risk from household lending will remain at moderate levels, with aggregate indebtedness for the sector that is currently below levels seen prior to the local crisis in 2001-2002 (see Chart III.2).

V.2.2 Public sector

In 2010 there was a drop in bank exposure to the public sector

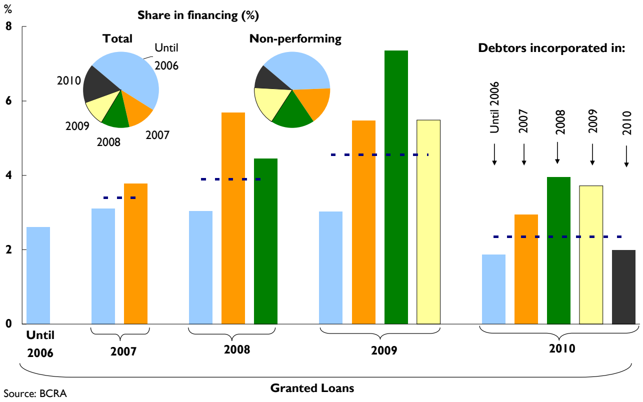
Together with the increase for the year in the share of bank assets accounted for by lending to the private sector, there has been a slight reduction in the exposure of financial institutions to the public sector, until reaching 12.2% of total assets. This figure is in line with the average for the region (see Chart V.22). At the same time, public sector deposit stocks continued to exceed credit channeled to that sector in an amount equivalent to 10.4% of total assets at the end of 2010 (see Chart V.23). It should be noted that in March 2011 new Central Bank regulations came into force simplifying in a single regulation the valuation criteria for non-financial public sector debt instruments and the monetary regulation instruments issued by the Central Bank. This change is in line with international recommendations on the matter, and seeks to encourage elimination of differences between the accounting valuation of these assets and their market prices, as well as to improve transparency of their disclosure on financial institution balance sheets (see Page 43).

Bank exposure to this sector is expected to remain at a low level. In a favorable macroeconomic context, it is expected that the public sector will maintain its payment capacity, on the basis of the performance of its revenue and expenditure, the effect of the normalization of its liabilities, and declining levels of indebtedness in terms of GDP (see Chapter II).

Chart V.21

Household Loans by Granted Period - Estimation

Non-performing loans / Total loans (%) - 2010



Source: BCRA

V.3 Currency Risk

The financial system has lowered its exposure to currency risk

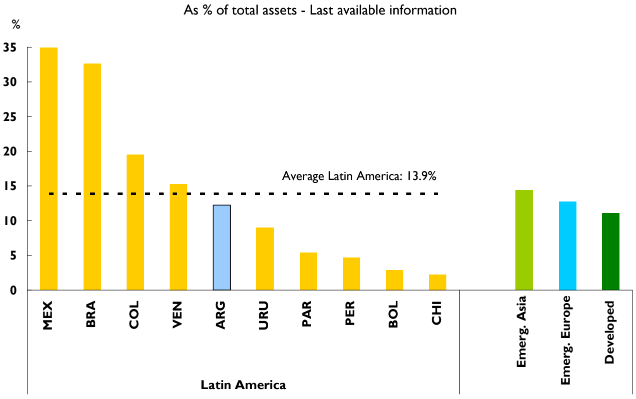
The shrinking of the banking system active foreign currency mismatching, added to the reduction in exchange rate volatility seen in 2010 led to a drop in bank balance sheet exposure to currency risk. At the end of 2010 financial system currency mismatching, including both asset and liability items and foreign currency forward transactions[85], stood at 31% of net worth[86], showing a significant drop in the second part of the year (see Chart V.24).

In 2010 the increase in financial system foreign currency liabilities (mainly deposits from the public and private sectors) was higher than the combined effect of the increase in assets (liquidity and loans to finance exports) and net undelivered foreign currency term purchases (foreign currency derivatives). Public banks and foreign private banks were mainly behind the reduction in foreign currency mismatching over the course of 2010 (see Chart V.25).

Chart V.22

Securities and Loans to the Public Sector

As % of total assets - Last available information



Source: BCRA and IMF

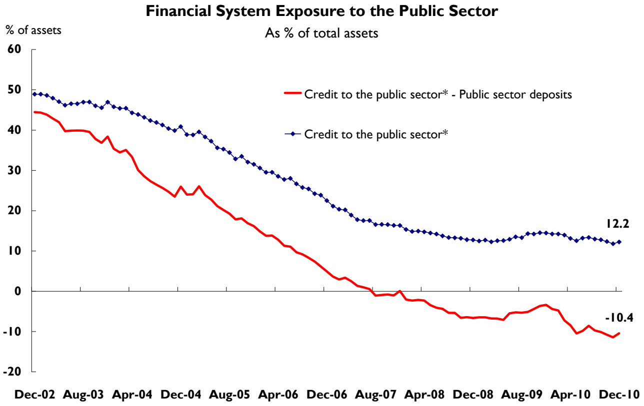
Towards the end of the year most of the foreign currency mismatching in the financial system (93% of the total) was explained by the difference between assets and liabilities, with the remainder coming from net undelivered foreign currency term purchases (forward purchases of foreign currency that exceeded forward sales) (see Chart V.26). Two thirds of the total financial system mismatching is originated in public banks. National private banks recorded the largest proportion of net foreign currency forward purchases.

During 2010 the nominal peso-dollar exchange rate increased moderately, recording less volatility than in previous years. Given the active position in foreign currency at system level, the increase in the nominal

[85] In memorandum accounts.

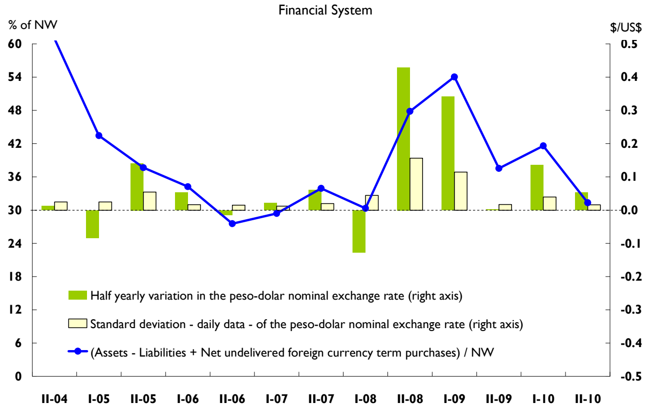
[86] In regulatory terms, the financial system as a whole recorded a net global foreign currency position (PGNME) equivalent to 34% of adjusted stockholders' equity (RPC) at the end of the year, slightly less than at the end of 2009.

Chart V.23
Financial System Exposure to the Public Sector
As % of total assets



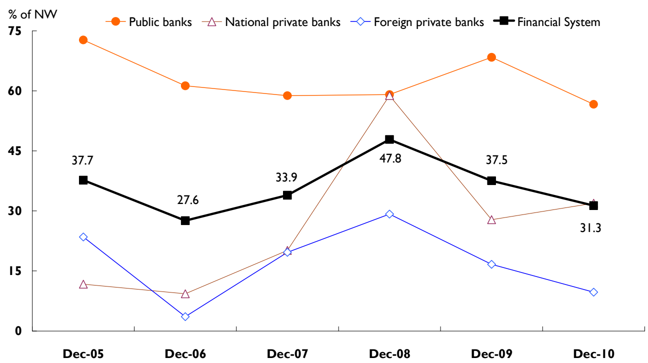
* Note: Public bond position (without Lebac and Nobac) + Loans to the public sector
Source: BCRA

Chart V.24
Currency Mismatching and Exchange Rate Volatility
Financial System



Source: BCRA

Chart V.25
Currency Mismatching
Assets - Liabilities + Net undelivered foreign currency term purchases*



* Memorandum account
Source: BCRA

exchange rate gave rise to some book profits in 2010, although these were smaller than in previous periods (see Chart IV.23).

It should be noted that the dollarization of the financial system is less than that which existed prior to the 2001-2002 crisis (see Page 65) and that currently recorded on average in the rest of the countries in the region.

Currency risk is expected to remain at a low level

The exposure of financial institutions to currency risk is expected to remain low in 2011, and system currency mismatching will remain at moderate levels in line with the limited volatility of the nominal exchange rate. As a result, the risk of fluctuations in the exchange rate having a negative impact on the net worth of the banking system continues to be low.

V.4 Interest rate risk

Bank exposure to interest rate risk has remained limited

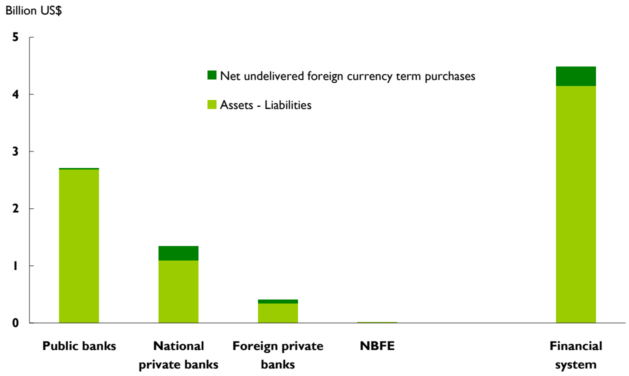
In a period in which the most significant domestic interest rates were lower than those seen one year earlier and exhibited limited volatility, the probability of materialization of interest risk in the banking book remains low.

This risk faced by financial institutions originates from the lower sensitivity of assets to changes in interest rates compared with that of liabilities. The holding of banking assets that accrue interest at fixed rates for relatively longer periods than those of liabilities gives rise to balance sheet exposure to interest rate volatility. In general terms, the mismatching of terms that the financial system faces saw no major change in 2010. Mainly as from the increased share by liquid assets and Central Bank bills and notes (see Chart V.27), total financial system assets have recorded a slight shortening of their residual term. The increase that took place in the weighting of lending to the private sector with a longer relative term to maturity, to some extent compensated for this trend. Sight deposits gained relevance for the banking system, giving rise to a moderate reduction in the residual term of sector funding (see Chart V.28).

There has been a drop in real interest rate mismatching in terms of aggregate net worth

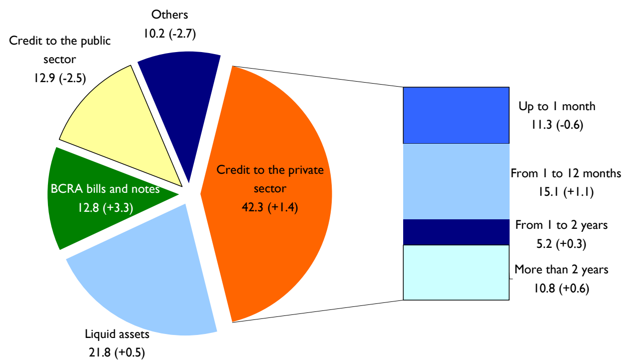
Although the increase for the year in the book value of the National Guaranteed Loans (PGN) and government securities adjustable according to CER led to a slight

Chart V.26
Composition of the Foreign Currency Mismatch
By group of financial entities - December 2010



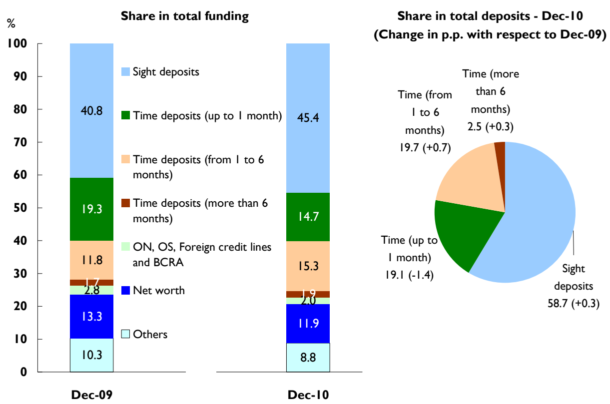
Source: BCRA

Chart V.27
Financial System Assets by Time to Maturity
As % of netted assets - Dec-10 - In brackets: change with respect to Dec-09 in p.p.



Source: BCRA

Chart V.28
Total Funding of the Financial System by Time to Maturity



Source: BCRA

widening of the difference between adjustable assets and liabilities, this mismatching stood at 51% in terms of net worth towards the end of 2010 (see Chart V.29), below the level in 2009. As a result, the banking system has maintained a limited exposure to the real interest rate risk.

During 2010 the financial system faced a gradual increase in the minimum capital requirement for interest rate risk, explained by both the domestic currency segment and the segment in pesos adjusted by CER in the case of public banks, and by items in pesos in private banks.

Exposure to interest rate risk is expected to continue at a moderate level

In the context of positive expectations for the domestic economy, no major fluctuations in interest rates are anticipated for coming months, and there will continue to be a low probability of any interest rate risk faced by the financial system materializing. Although there is a wide scope for an increase in its depth, financial institutions can count on an interest rate futures market to help to manage this type of risk, intrinsic to the activity (see Page 35). It should be noted that the Central Bank continues to promote use of this market by participating on a *"función giro"* basis (matching counterparts).

V.5 Market risk

Exposure of the financial system to market risk remains limited

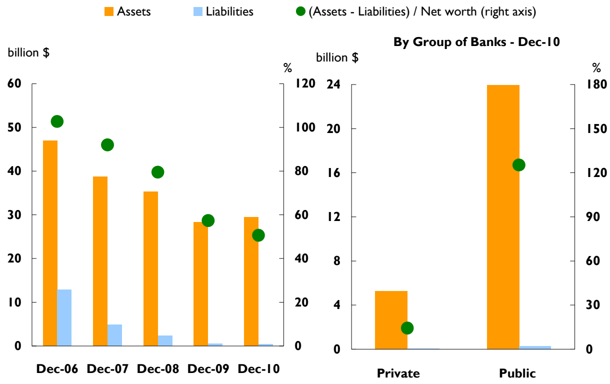
During 2010 there was a slight increase in the proportion of marked-to-market securities in bank portfolios (see Chart V.30), together with an improvement in the prices of leading government securities (see Chart V.31). Over the year there was a gradual rise in the volume of securities that could result in a fluctuation in the net worth of the financial system in the event of changes in market conditions. At the same time, in 2010 a moderate reduction was recorded in the volatility of the leading securities held (see Chart V.32), lessening the exposure of banks to market risk. As a result, in 2010 the value at risk from the market in terms of regulatory capital declined slightly (see Chart V.33), holding steady at levels below the peaks of the international financial crisis (end of 2007 and beginning of 2008).

In line with the gradual balance sheet normalization that has taken place in the financial system in recent years,

Chart V.29

CER Mismatching

CER adjusted items - Financial system

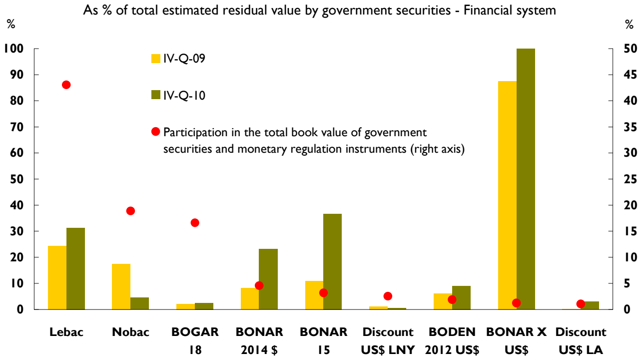


Source: BCRA

Chart V.30

Main Instruments with Market Prices and Available for Sale

As % of total estimated residual value by government securities - Financial system



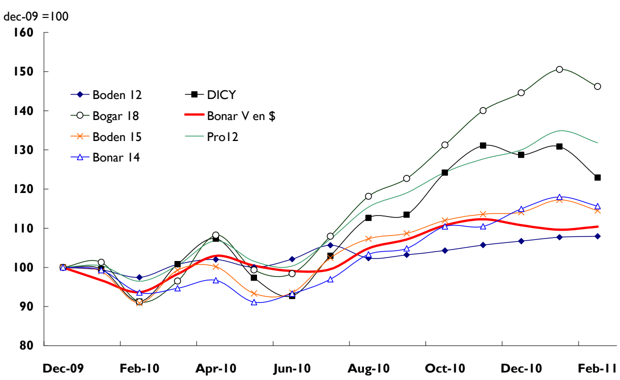
Note: the book value of the selected sample of government securities represented 93% of the overall position of government securities and monetary regulation instruments in the IV-Q-2010

Source: BCRA

Chart V.31

Government Securities Prices

Per 100 residual value - Monthly average of daily data - Index



Source: BCRA

this Institution decided to simplify the range of alternatives available to banks for the valuation of public debt securities and the monetary regulation instruments of the Central Bank. As from March 2011 only the criteria for recording these items at fair market value or cost of incorporation to the books plus monthly yield based on the internal rate of return will remain in force. This modification is not expected to lead to any significant fluctuation in net worth for the financial system as a whole. This change, which is in line with international recommendations on the matter, is intended to encourage the elimination of the differences between the valuation of these assets and their market prices, as well as to improve transparency of their disclosure on bank balance sheets.

The market risk faced by financial institutions is expected to remain moderate, although the international context will influence the performance of prices of the main securities held in bank portfolios

Despite the volatility recorded on international financial markets in recent months, for the remainder of 2011 there are positive expectations in relation to bond prices. Nevertheless, in view of the various areas of persistent global tension that exist, further episodes of volatility cannot be ruled out. In this context, it is expected that banks will maintain a moderate level of exposure to market risk.

V.6 Risk balance

Signs of a favorable change in the configuration of risks faced by the financial system persist

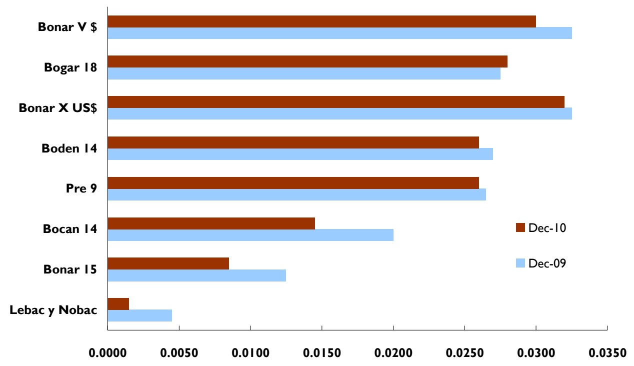
In general terms, the main trends highlighted in the previous issue of the Financial Stability Report have been reinforced, with a continued trend towards a positive change in the global configuration of financial system risks. At the same time, there has been a gradual improvement in the coverage of the risks assumed and in the solvency of the sector.

The banking system has maintained its position in relation to liquidity risk based on a sustained rise in deposits, levels of liquid reserves, and the deepening of interbank markets. In addition, in the event of need, the Central Bank can count on the possibility of acting as a lender of last resort.

The financial system has further strengthened its position in the face of the risk from lending to the private sector, while lending to companies and

Chart V.32

Daily Volatility for the Calculation of Market Risk Capital Requirement

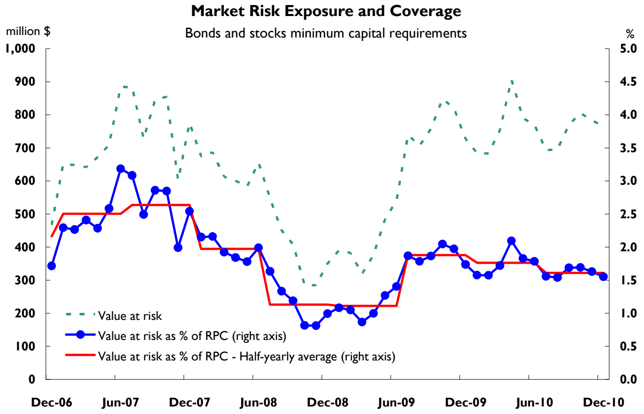


Source: BCRA

Chart V.33

Market Risk Exposure and Coverage

Bonds and stocks minimum capital requirements



Source: BCRA

households has continued to gradually increase its participation in total bank assets. Declining private sector delinquency ratio, added to provisioning policies, have helped to ensure that all groups of financial institution maintain adequate coverage for expected losses.

Financial institutions have reduced their exposure to foreign currency risk in the context of limited exchange rate volatility, holding this risk at moderate levels. The mismatching of CER-adjusted items was also lowered, reducing the risk from the real interest rate faced by banks. The gradual reduction and low variability of the main interest rates in 2010 have limited the probability of any materialization of interest rate risk. Exposure to market risk rose slightly in 2010, given the increased weighting of mark to market assets in bank portfolios. Nevertheless, this risk continues to account for a low share of the financial system risk balance.

The positive domestic macroeconomic performance foreseen for 2011 will create a favorable framework for financial system activities, with a gradual improvement in the global balance of risks assumed. The Central Bank will continue to focus on its policies for the promotion of monetary and financial stability, encouraging the deepening of lending to companies and households.

VI. Payments System

Summary

The National Payment System (NPS) has continued to diversify and deepen instruments boosting the payment process of the economy and providing enhanced security and efficiency to bank operations. Although cash held by public continues to be a major means of payment for local transactions, the use of electronic means of payment is gradually increasing.

The market of credit and debit cards experienced a further expansion, in line with the greater momentum of financial intermediation, with a significant contribution by private banks. The international experience proves that this market still has a wide range for growth, a trend that would result in greater economic development at local level. Throughout the year, the number of cleared checks increased while the number of bounced checks by nonsufficient funds declined in terms of the total cleared.

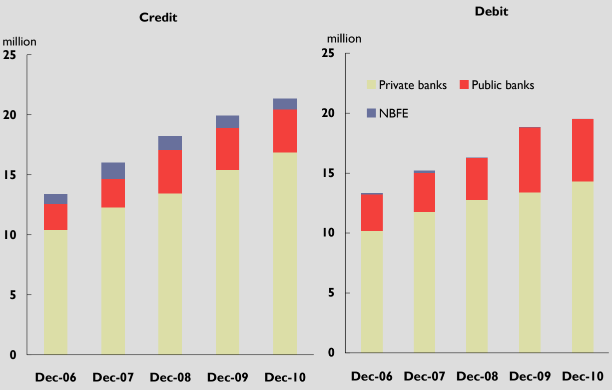
On an ongoing basis, both households and companies are gradually increasing the use of direct debits, which currently account for 3.6% of GDP (up 1 p.p. against the figure recorded two years ago), with sufficient range to improve if compared to other economies. Retail bank transfers experienced a significant increase, especially during the second half of the year, driven in part by the new measures implemented by the Central Bank of Argentina, tending to cost reduction.

The use of high value payment system MEP (Electronic Means of Payment) increased in the level of transactions, with a similar performance in both halves of 2010.

In recent months, the Central Bank implemented a set of measures aimed at improve and extend the NPS; many of these measures are already showing positive results (see Box 5 for further details). In turn, the standardization of the certificates of deposit has contributed to the Uniform Federal Clearing (CFU) project, which provides financial institutions with a broader range of tools for the monitoring and control of this type of documents, resulting in a more secure and efficient operation.

Chart VI.1

Number of Cards Issued by the Financial System

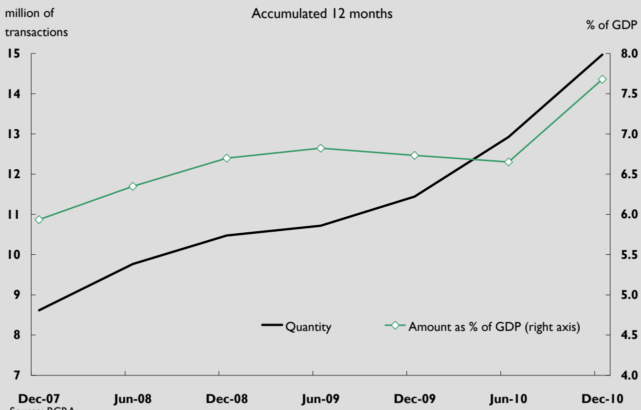


Source: BCRA

Chart VI.2

Retail Transfers

Accumulated 12 months

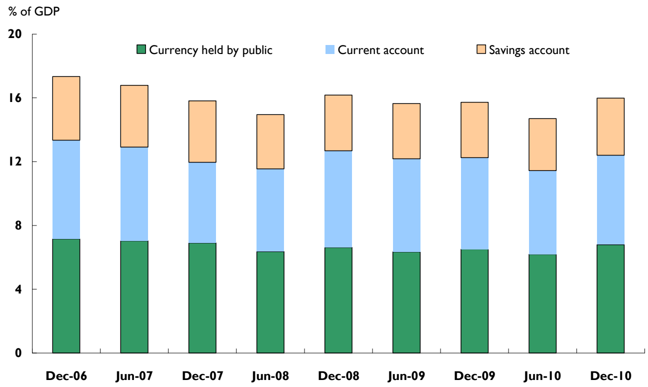


Source: BCRA

Chart VI.3

M2 Evolution

As % of GDP

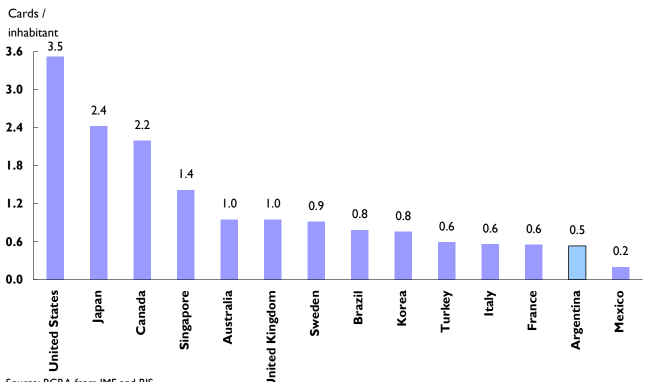


Soruce: BCRA

Chart VI.4

Number of Credit Cards Issued - International Comparison

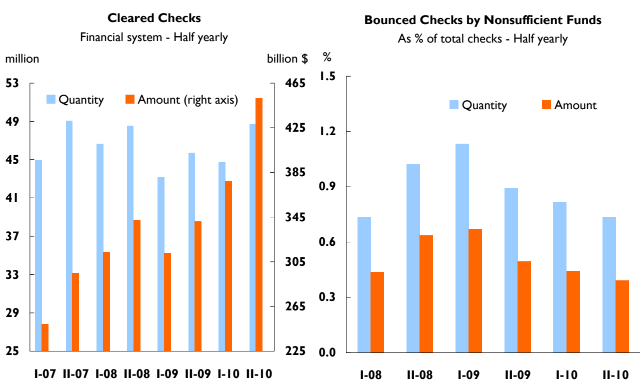
Last available data



Source: BCRA from IMF and BIS.

Chart VI.5

Cleared Checks



Source: BCRA

VI.1 National Payments System

The private sector has continued to deepen the use of the electronic means of payments, within a context of expansion of the card market and of improvement in cleared checks

The National Payment System continued to improve, in terms of both scope and development, providing instruments to boost the economic payment process and ensure enhanced security and agility in transactions.

While cash held by the public continues to be the major means of payment in the local economy (see Chart VI.3), the use of other payment methods, especially electronic means, is deepening gradually. Cash held by the public remained stable at around 6.6% of GDP, in line with the average of other economies of the region[87].

As a sign of the gradual development means of payment other than cash, an increase has been observed in credit and debit card market against last year, with a significant contribution of private banks (see Chart VI.1). However, there is sufficient room ahead to deepen the use of these instruments to reach the levels of other economies (see Chart VI.4).

In the second half of 2010, the number of cleared checks reached 48.7 million (for $450 billion), reflecting a 6.6% year-on-year (y.o.y) growth. Approximately 77% of the documents presented for clearing did not require sending the image to the drawee bank and only required an electronic record, since the amount of the documents was below $5,000. On the other documents (above $5,000), in addition to such record, an electronic image was sent to be verified by the drawee bank. The number of bounced checks for various reasons accounted for 2.5% of all cleared checks, slightly over the values recorded in the second half of 2009. Nevertheless, the number of checks bounced for nonsufficient funds accounted for 0.7%, thus consolidating its downward trend against the total figure (see Chart VI.5) (and also in terms of the traded amount). The use of settlement checks has also improved mainly due to the measures recently adopted by the BCRA (see Box 5 for further details).

In turn, the use of direct debit to cancel debts, associated mainly to the payment of services such as electricity, cable TV, gas and telephone, has continued to increase.

[87] See BEF II-10, Chapter VI. Payment System, Chart VI.4

Box 5 / Banking Services Strategy of the BCRA

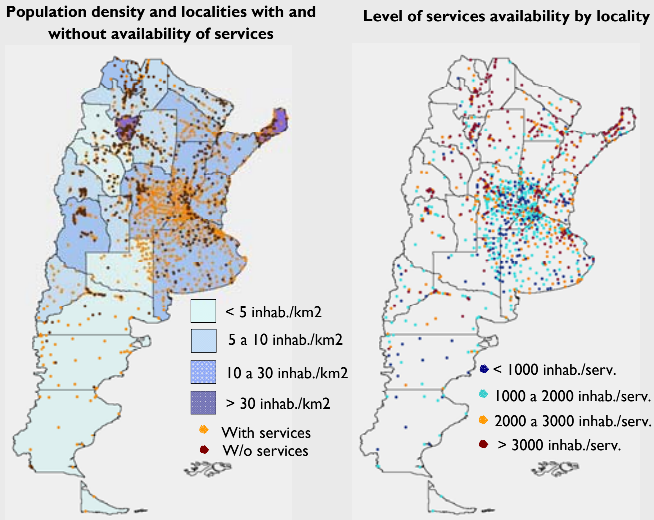
The provision of financial services is still heterogeneous among the different jurisdictions of the country, added to the unequal access to banking tools among the different socio-economic segments of the population. Taking this into account, one of the pillars of the current financial policy fostered by the BCRA is the universalization of the access to financial services. The approval of new guidelines for the opening of bank branches, the creation of the Free Universal Account (*“Cuenta Gratuita Universal”*) and the restatement of the Settlement Check, together with cost reduction and immediate crediting of bank transfers, are all measures aimed at this goal. At the same time, taking into account the still low volume of medium and long-term credit, the Central Bank is promoting a further development of financing to companies with a view to intensifying investment growth, through the Bicentenary Productive Financing Program (*“Programa de Financiamiento Productivo del Bicentenario”*)

In recent years, the financial system has experienced a gradual expansion of its operation infrastructure, with an increase in the number of employees, ATMs and bank branches (see Page 55), as well as some improvements in banking services (see Box 3 of BEF II-10). However, there are still signs of heterogeneity in the provision of financial services throughout the country and an unequal access among socio-economic segments. In general, localities with a better infrastructure in terms of financial services are located in the Center and South of the country, with a lesser penetration of the services in the North (see Chart B.5.1). There are 880 districts, corresponding mainly to the Northern provinces, with a low presence of the financial services[88] or a complete absence of them.

In this context, in 2010, the BCRA redefined the priorities of its financial policy, seeking to improve the infrastructure for the provision of financial services at regional level and to encourage their use by the population. In May 2010, special service offices were authorized to open in districts with less than 30,000 inhabitants, providing facilities to financial entities willing to settle in such locations[89]. Additionally, new guidelines were established to authorize the opening of new branches[90]. Since 2011, the main consideration is whether there is a correlation between the requests to open bank branches in jurisdictions intensive in banking services and the simultaneous opening of branches in areas with reduced banking services[91]. In addition, the use of mobile agencies[92] is highly encouraged, extending their availability for entities acting as financial agents of local governments.

Chart B.5.1

Infrastructure Availability for Financial Services* Provision in Argentina



*Note: Headquarters, Head Office, Branch, Agency, Regional Office, Travelling Branch, ATM and Self-Service Terminal or Office aimed at providing specific services. Data at March 2010.
Source: BCRA e INDEC

These measures, tending to an improved geographical availability of financial services, were accompanied by a recent calibration of the classification of jurisdictions based on which the minimum cash requirement[93] imposed on institutions is calculated, a scheme designed to promote the geographical coverage of bank operation. In addition, capital requirements were lowered for cooperative credit entities requesting the creation of branches in districts or municipalities where there are no more than two branches of financial entities.

In addition to the strategy aimed at reducing the regional disparity in the provision of financial services, the Central Bank is also developing new instruments to

[88] Out of this total, around 280 locations (with 8.5 million people) have low financial service availability (over 3,000 inhabitants per each financial service unit).
[89] Communication “A” 5079.
[90] Communication “A” 5167.
[91] This correlation between requests for opening branches shall not be taken into account for public banks, given their role of encouraging development and bank coverage, nor in banks present in zones with a lesser supply above the market average, nor in specialized banks (with at least 5 branches).
[92] Communication “A” 5157.
[93] Communication “A” 5168.

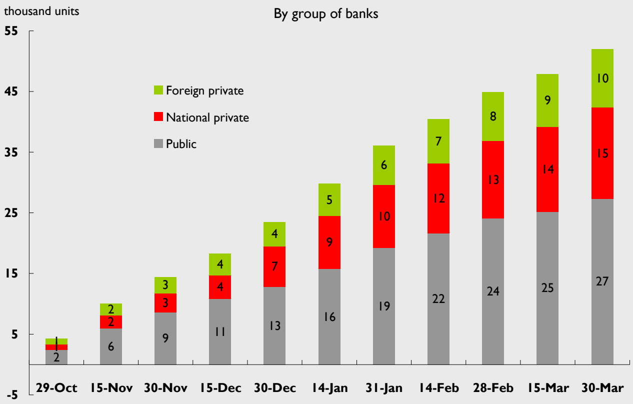
foster a better access to such services for all socio-economic segments of the population. This resulted in the implementation of the Universal Free Bank Account (CGU)[94], a tool that banks must make available to all individuals without a bank account, with no service charges, and with the only requirement of submitting the National Identity Document (DNI). By the end of March 2011, there were almost 52,000[95] accounts opened through this tool (see Chart B.5.2), with 480 accounts opened on a daily basis on average. There are currently 34 financial entities offering this product and the contribution of public banks in this sense (53% of the total accounts opened) is highly remarkable.

Meanwhile, in order to extending the use of financial products in the segments of the population that have banking access, the BCRA instrumented the regulation whereby activity in bank accounts for wage payment ("wage account") can generate no cost for workers[96].

Chart B.5.2

Universal Free Bank Account

By group of banks



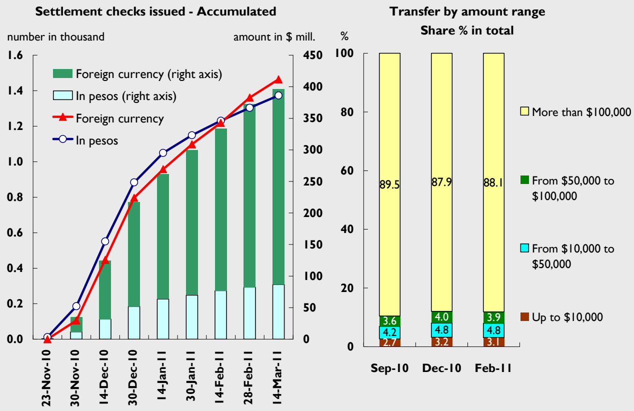
Source: BCRA

Likewise, with the purpose of increasing the amount of transactions channeled through the financial system, especially among the lower-income population segments, a significant cost-reduction of inter-bank transfers[97] was encouraged, both conducted through home banking (internet), ATMs and bank cashiers. Even more, the costs of all transfers made by electronic means for amounts below $10,000 were eliminated. In this new context, the total number of transfers grew by the end of 2010, while the transfers for relatively smaller amounts gained momentum in recent months (although their share of total transfers is still reduced). In order to deepen the scope of this initiative and in line with the objective of extending the use of financial services, this Institution has recently established that banks must immediately credit bank transfers conducted through ATMs or home banking (internet)[98].

The BCRA has recently implemented the Settlement Check[99] for transactions for higher amounts (purchase of real property or vehicles, among others). Since its implementation, transactions for a total amount of $87 million (nearly 1,400 checks denominated in domestic currency) and US$77 million (around 1,500 checks denominated in foreign currency) have been recorded (see Chart B.5.3).

Chart B.5.3

Instruments to Increase Banking Access



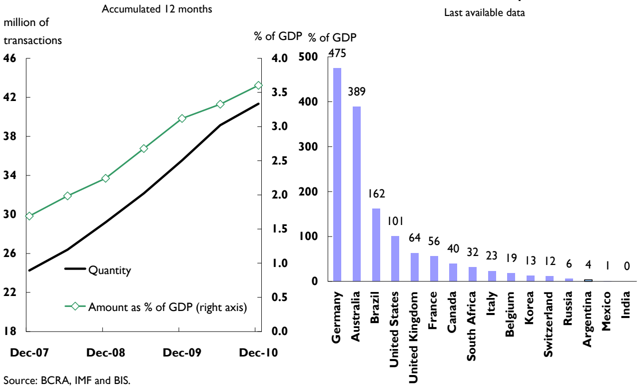
Source: BCRA

Finally, and also with the objective of extending the access and use of financial services, the Central Bank has identified the need of generating instruments to improve the resources available for companies to set in motion investment plans, thus, increasing the productive capacity of our economy. For this purpose, the Bicentenary Productive Financing Program[100] was launched by mid 2010, through which the BCRA auctions funds among financial institutions for a maximum period of 5 years. Banks apply these funds to productive sector investment projects with an average term of two years and a half or more, at a fixed-interest rate in pesos (for further details, see Chapter IV).

[94] Communication "A" 5127.
[95] Out of which 10,400 were undergoing a validation process.
[96] Communication "A" 5091.
[97] Communication "A" 5127.
[98] Communication "A" 5194.
[99] Communication "A" 5130.
[100] Communication "A" 5089.

Chart VI.6

Direct Debits

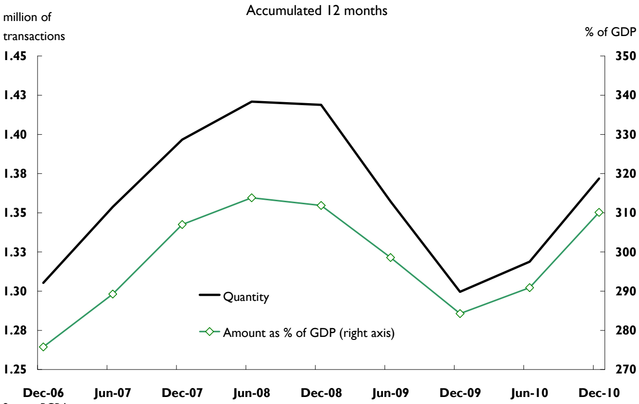


Source: BCRA, IMF and BIS.

Chart VI.7

Electronic Means of Payments - Peso Transactions Cleared

Accumulated 12 months



Source: BCRA

By the end of 2010, direct debit volume accounted for 3.6% of GDP, above the figures recorded in previous years but still with a wide range for development (see Chart VI.6), which would be attained as the economy continues to grow and more population sectors have access to financial banking services. In turn, retail bank transfers accelerated their growth pace in the second half of 2010 and ended the year with a traded volume equal to 8% of GDP (see Chart VI.2). This evolution was driven in part by the measures adopted by the BCRA to reduce transaction costs (see Box 5) for this type of operations.

Likewise, $1.4 million operations were channeled through the Electronic Means of Payment –MEP- (high-value payment system) throughout the year, with a similar performance in both halves of the year (see Chart VI.7).

VI.2. Modernization of the payment system

The Central Bank has recently implemented a set of measures aimed at improving the security of bank transactions, as well as speeding up and diversifying the Payment System

Throughout last year, the BCRA deepened the measures tending to expand the National Payment System and ensure better security and efficiency in banking transactions. Box 5 includes a detailed analysis of these measures, such as cost reduction for transfers, the restatement of the settlement check and the implementation of immediate transfers.

Under the Uniform Federal Clearing (CFU), advances were made in the standardization of the nominal certificates of deposit, added to the checks, postal orders and bills of exchange as instruments now fitted with enhanced security measures. This provides users with alternatives implying more security, and financial entities with a higher number of tools for the monitoring and control of this type of documents, including a database where images of cleared documents are available for consultation.

Statistics Annex – Financial System

Chart 1 | Financial Soundness Indicators

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1- Liquidity	22.3	26.1	23.1	25.0	23.4	19.6	22.8	29.1	29.6	20.1	22.5	23.0	27.9	28.6	28.0
2- Lending to the public sector	16.9	16.2	16.2	18.0	17.3	23.0	48.5	47.0	40.9	31.5	22.5	16.3	12.7	14.5	12.2
3- Lending to the private sector	50.8	47.7	48.4	44.9	39.9	42.7	20.8	18.1	19.6	25.8	31.0	38.2	39.4	38.3	39.8
4- Private non-performing loans	16.2	13.8	12.2	14.0	16.0	19.1	38.6	33.5	18.6	7.6	4.5	3.2	3.1	3.5	2.1
5- Net worth exposure to private sector	24.9	22.5	20.6	24.7	26.2	21.9	17.3	12.4	-1.0	-4.1	-3.3	-3.0	-3.3	-2.8	-4.9
6- ROA	0.6	1.0	0.5	0.2	0.0	0.0	-8.9	-2.9	-0.5	0.9	1.9	1.5	1.6	2.3	2.8
7- ROE	4.1	6.3	3.9	1.7	0.0	-0.2	-59.2	-22.7	-4.2	7.0	14.3	11.0	13.4	19.2	24.4
8- Efficiency	142	136	138	142	147	143	189	69	125	151	167	160	167	185	182
9- Capital compliance	23.8	20.8	20.3	21.0	20.1	21.4	-	14.5	14.0	15.3	16.9	16.9	16.9	18.8	17.7
10- Excess capital compliance	64	73	49	54	58	54	-	116	185	173	134	93	90	100	86.3

Source: BCRA

Chart 2 | Balance Sheet

In millions of current pesos	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Jun-10	Dec-10	Change (in%)	
											Half-yearly	Annual
Assets	**187,532**	**186,873**	**212,562**	**221,962**	**258,384**	**297,963**	**346,762**	**387,381**	**442,536**	**511,038**	**15.5**	**31.9**
Liquid assets[1]	17,138	27,575	29,154	20,819	37,991	46,320	58,676	71,067	87,384	93,079	6.5	31.0
Public bonds	31,418	45,062	55,382	66,733	64,592	62,678	65,255	86,318	100,711	119,849	19.0	38.8
Lebac/Nobac	-	-	17,755	28,340	29,289	36,022	37,093	43,867	61,227	76,948	25.7	75.4
Portfolio	-	-	11,803	21,067	25,767	31,598	25,652	34,748	45,951	61,855	34.6	78.0
Repo	-	-	5,953	7,273	3,521	4,424	11,442	9,119	15,275	15,093	-1.2	65.5
Private bonds	332	198	387	389	813	382	203	307	256	209	-18.2	-32.0
Loans	84,792	68,042	73,617	84,171	103,668	132,157	154,719	169,868	191,200	230,098	20.3	35.5
Public sector	44,337	33,228	30,866	25,836	20,874	16,772	17,083	20,570	23,701	25,878	9.2	25.8
Private sector	38,470	33,398	41,054	55,885	77,832	110,355	132,844	145,247	163,186	199,202	22.1	37.1
Financial sector	1,985	1,417	1,697	2,450	4,962	5,030	4,793	4,052	4,313	5,018	16.4	23.9
Provisions over loans	-11,952	-9,374	-7,500	-4,930	-3,728	-4,089	-4,744	-5,824	-5,878	-6,254	6.4	7.4
Other netted credits due to financial intermediation	39,089	27,030	32,554	26,721	26,039	29,712	38,152	33,498	37,181	39,006	4.9	16.4
Corporate bonds and subordinated debt	1,708	1,569	1,018	873	773	606	912	1,146	1,360	1,433	5.4	25.1
Unquoted trusts	6,698	4,133	3,145	3,883	4,881	5,023	5,714	5,942	5,985	6,824	14.0	14.8
Compensation receivable	17,111	14,937	15,467	5,841	763	377	357	16	15	0	-99.9	-99.9
Other	13,572	6,392	12,924	16,124	19,622	23,706	31,169	26,395	29,822	30,749	3.1	16.5
Leasing	567	397	611	1,384	2,262	3,469	3,935	2,933	2,969	3,936	32.6	34.2
Shares in other companies	4,653	4,591	3,871	4,532	6,392	6,430	7,236	6,711	6,982	7,917	13.4	18.0
Fixed assets and miscellaneous	8,636	8,164	7,782	7,546	7,619	7,643	7,903	8,239	8,497	9,071	6.8	10.1
Foreign branches	3,522	3,144	3,524	3,647	2,782	2,912	3,153	3,926	3,158	3,285	4.0	-16.3
Other assets	9,338	12,043	13,180	10,950	9,953	10,347	12,275	10,337	10,075	10,841	7.6	4.9
Liabilities	**161,446**	**164,923**	**188,683**	**195,044**	**225,369**	**261,143**	**305,382**	**339,047**	**392,455**	**453,486**	**15.6**	**33.8**
Deposits	75,001	94,635	116,655	136,492	170,898	205,550	236,217	271,853	325,484	376,344	15.6	38.4
Public sector[2]	8,381	16,040	31,649	34,019	45,410	48,340	67,151	69,143	101,910	115,951	13.8	67.7
Private sector[2]	59,698	74,951	83,000	100,809	123,431	155,048	166,378	199,278	220,041	257,599	17.1	29.3
Current account	11,462	15,071	18,219	23,487	26,900	35,245	39,619	45,752	52,371	61,306	17.1	34.0
Savings account	10,523	16,809	23,866	29,078	36,442	47,109	50,966	62,807	68,753	82,575	20.1	31.5
Time deposit	19,080	33,285	34,944	42,822	54,338	65,952	69,484	83,967	90,216	104,492	15.8	24.4
CEDRO	12,328	3,217	1,046	17	13	0	0	0	0	0	-	-
Other netted liabilities due to financial intermediatio	75,737	61,690	64,928	52,072	46,037	46,225	57,662	52,114	54,231	60,052	10.7	15.2
Interbanking obligations	1,649	1,317	1,461	2,164	4,578	4,310	3,895	3,251	3,530	4,201	19.0	29.2
BCRA lines	27,837	27,491	27,726	17,005	7,686	2,362	1,885	270	268	262	-2.1	-2.7
Outstanding bonds	9,096	6,675	7,922	6,548	6,603	6,938	5,984	5,033	4,059	3,432	-15.4	-31.8
Foreign lines of credit	25,199	15,196	8,884	4,684	4,240	3,864	4,541	3,369	3,272	3,897	19.1	15.7
Other	11,955	11,012	18,934	21,671	22,930	28,752	41,357	40,191	43,102	48,259	12.0	20.1
Subordinated debts	3,712	2,028	1,415	1,381	1,642	1,672	1,763	1,922	1,973	2,165	9.7	12.7
Other liabilities	6,997	6,569	5,685	5,099	6,792	7,695	9,740	13,159	10,766	14,925	38.6	13.4
Net worth	**26,086**	**21,950**	**23,879**	**26,918**	**33,014**	**36,819**	**41,380**	**48,335**	**50,081**	**57,552**	**14.9**	**19.1**
Memo												
Netted assets	185,356	184,371	202,447	208,275	244,791	280,336	321,075	364,726	416,256	483,266	16.1	32.5
Consolidated netted assets	181,253	181,077	198,462	203,286	235,845	271,652	312,002	357,118	407,671	473,668	16.2	32.6

(1) Includes margin accounts with the BCRA; (2) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 1)

1.- (Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; **3.-** (Loans to the private sector + Leases) / Total assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total non-performing loans - Provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-** (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-** Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; **10.-** (Capital compliance minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Financial System (cont.)

Chart 3 | Profitability Structure

In millions of current pesos	Annual									Half-yearly			Change (in%)	
	2002[1]	2003	2004	2005	2006	2007	2008	2009	2010	II-09	I-10	II-10	II-10 / I-10	II-10 / II-09
Financial margin	13,991	1,965	6,075	9,475	13,262	15,134	20,462	28,937	36,006	15,244	14,726	21,279	44	40
Net interest income	-3,624	-943	1,753	3,069	4,150	5,744	9,573	14,488	17,964	7,524	8,304	9,660	16	28
CER and CVS adjustments	8,298	2,315	1,944	3,051	3,012	2,624	2,822	1,196	2,405	681	1,042	1,362	31	100
Foreign exchange rate adjustments	5,977	-890	866	751	944	1,357	2,307	2,588	2,101	761	1,043	1,057	1	39
Gains on securities	3,639	1,962	1,887	2,371	4,923	5,144	4,398	11,004	13,990	6,827	4,518	9,472	110	39
Other financial income	-299	-480	-375	233	235	264	1,362	-339	-454	-549	-182	-272	50	-50
Service income margin	4,011	3,415	3,904	4,781	6,243	8,248	10,870	13,052	16,102	6,913	7,459	8,642	16	25
Loan loss provisions	-10,007	-2,089	-1,511	-1,173	-1,198	-1,894	-2,839	-3,814	-3,291	-1,821	-1,536	-1,754	14	-4
Operating costs	-9,520	-7,760	-7,998	-9,437	-11,655	-14,634	-18,767	-22,710	-28,692	-11,833	-13,416	-15,276	14	29
Tax charges	-691	-473	-584	-737	-1,090	-1,537	-2,318	-3,272	-4,125	-1,711	-1,824	-2,301	26	34
Income tax	-509	-305	-275	-581	-595	-1,032	-1,342	-4,226	-5,033	-2,542	-1,532	-3,501	128	38
Adjustments to the valuation of government securities[2]	0	-701	-320	-410	-752	-837	-1,757	-262	-214	-74	-151	-63	-58	-14
Amortization payments for court-ordered releases	0	-1,124	-1,686	-1,867	-2,573	-1,922	-994	-703	-635	-344	-342	-293	-14	-15
Other	-3,880	1,738	1,497	1,729	2,664	2,380	1,441	918	1,645	823	1,041	605	-42	-27
Monetary results	-12,558	69	0	0	0	0	0	0	0	0	0	0	0	0
Total results	**-19,162**	**-5,265**	**-898**	**1,780**	**4,306**	**3,905**	**4,757**	**7,920**	**11,763**	**4,656**	**4,425**	**7,338**	**66**	**58**
Adjusted results3	-	-3,440	1,337	4,057	7,631	6,665	7,508	8,885	12,613	5,074	4,918	7,695	56	52
Annualized indicators - As % of netted assets													*change in p.p.*	
Financial margin	6.5	1.1	3.1	4.6	5.8	5.7	6.7	8.6	8.6	8.9	7.7	9.5	1.8	0.6
Net interest income	-1.7	-0.5	0.9	1.5	1.8	2.2	3.1	4.3	4.3	4.4	4.3	4.3	0.0	-0.1
CER and CVS adjustments	3.9	1.3	1.0	1.5	1.3	1.0	0.9	0.4	0.6	0.4	0.5	0.6	0.1	0.2
Foreign exchange rate adjustments	2.8	-0.5	0.4	0.4	0.4	0.5	0.8	0.8	0.5	0.4	0.5	0.5	-0.1	0.0
Gains on securities	1.7	1.1	1.0	1.2	2.2	1.9	1.4	3.3	3.3	4.0	2.4	4.2	1.9	0.3
Other financial income	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.4	-0.1	-0.1	-0.3	-0.1	-0.1	0.0	0.2
Service income margin	1.9	1.9	2.0	2.3	2.7	3.1	3.6	3.9	3.8	4.0	3.9	3.9	0.0	-0.2
Loan loss provisions	-4.7	-1.1	-0.8	-0.6	-0.5	-0.7	-0.9	-1.1	-0.8	-1.1	-0.8	-0.8	0.0	0.3
Operating costs	-4.4	-4.2	-4.1	-4.6	-5.1	-5.5	-6.1	-6.7	-6.9	-6.9	-7.0	-6.8	0.2	0.1
Tax charges	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6	-0.8	-1.0	-1.0	-1.0	-1.0	-1.0	-0.1	0.0
Income tax	-0.2	-0.2	-0.1	-0.3	-0.3	-0.4	-0.4	-1.3	-1.2	-1.5	-0.8	-1.6	-0.8	-0.1
Adjustments to the valuation of government securities[2]	0.0	-0.4	-0.2	-0.2	-0.3	-0.3	-0.6	-0.1	-0.1	0.0	-0.1	0.0	0.1	0.0
Amortization payments for court-ordered releases	0.0	-0.6	-0.9	-0.9	-1.1	-0.7	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.1
Other	-1.8	0.9	0.8	0.8	1.2	0.9	0.5	0.3	0.4	0.5	0.5	0.3	-0.3	-0.2
Monetary results	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	**-8.9**	**-2.9**	**-0.5**	**0.9**	**1.9**	**1.5**	**1.6**	**2.3**	**2.8**	**2.7**	**2.3**	**3.3**	**1.0**	**0.6**
ROA adjusted [3]	-	-1.9	0.7	2.0	3.4	2.5	2.5	2.6	3.0	3.0	2.6	3.4	0.9	0.5
ROE	*-59.2*	*-22.7*	*-4.2*	*7.0*	*14.3*	*11.0*	*13.4*	*19.2*	*24.4*	*22.0*	*19.2*	*29.3*	*10.1*	*7.3*

(1) Information in currency of december 2002. (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains on securities" heading.

(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Source: BCRA

Chart 4 | Porfolio Quality

As percentage	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10
Non-performing loans (overall)	18.1	17.7	10.7	5.2	3.4	2.7	2.7	3.0	1.9
Non-performing loans to the non-financial private sector	**38.6**	**33.5**	**18.6**	**7.6**	**4.5**	**3.2**	**3.1**	**3.5**	**2.1**
Provisions / Non-performing loans	73.8	79.2	102.9	124.5	129.9	129.6	131.4	126.2	164.2
(Total non-perfoming - Provisions) / Overall financing	4.7	3.7	-0.3	-1.3	-1.0	-0.8	-0.8	-0.8	-1.2
(Total non-perfoming - Provisions) / Net worth	17.2	11.9	-1.0	-4.1	-3.3	-3.0	-3.3	-2.9	-4.9

(*) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA

Sttistics Annex – Private Banks

Chart 5 | Financial Soundness Indicators

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1- Liquidity	23.6	26.9	22.8	24.3	24.1	23.6	24.8	27.6	29.2	21.5	23.7	25.7	34.1	29.8	26.0
2- Lending to the public sector	13.5	13.7	13.6	16.1	14.7	20.8	49.4	47.7	41.6	28.5	16.3	9.5	6.3	6.2	4.5
3- Lending to the private sector	51.0	46.7	47.6	44.6	38.4	45.4	22.4	19.9	22.5	31.1	37.9	46.6	44.0	43.3	50.3
4- Private non-performing loans	11.1	8.5	7.7	8.9	9.8	14.0	37.4	30.4	15.3	6.3	3.6	2.5	2.8	3.3	2.0
5- Net worth exposure to private sector	21.6	14.3	13.2	11.5	13.4	11.4	18.6	11.2	1.9	-2.2	-3.0	-3.6	-3.4	-3.1	-4.9
6- ROA	0.6	0.7	0.5	0.3	0.1	0.2	-11.3	-2.5	-1.0	0.5	2.2	1.6	1.9	3.0	3.2
7- ROE	4.1	6.3	4.3	2.3	0.8	1.4	-79.0	-19.1	-8.1	4.1	15.3	10.9	15.2	22.9	24.5
8- Efficiency	144	135	139	146	152	151	168	93	115	136	158	152	166	195	176
9- Capital compliance	15.9	15.4	14.6	18.9	18.0	17.6	-	14.0	15.1	17.8	18.6	19.2	18.3	22.6	20.4
10- Excess capital compliance	33	47	27	60	49	43	-	88	157	155	116	87	86	121	100

Source: BCRA

Chart 6 | Balance Sheet

In millions of current pesos	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Jun-10	Dec-10	Change (in %)	
											Half-yearly	Annual
Assets	**118,906**	**116,633**	**128,065**	**129,680**	**152,414**	**175,509**	**208,888**	**229,549**	**245,082**	**280,025**	**14.3**	**22.0**
Liquid assets[1]	11,044	14,500	15,893	14,074	22,226	29,418	37,044	43,562	45,305	49,730	9.8	14.2
Public bonds	19,751	22,260	24,817	29,966	27,663	24,444	29,552	47,949	46,393	48,903	5.4	2.0
Lebac/Nobac	-	-	8,359	15,227	15,952	17,684	23,457	31,575	32,157	34,422	7.0	9.0
Portfolio	-	-	5,611	12,899	14,220	15,639	12,858	27,413	26,348	26,348	0.0	-3.9
Repo	-	-	2,749	2,328	1,732	2,045	10,598	4,161	5,809	8,074	39.0	94.0
Private bonds	273	172	333	307	683	310	127	233	153	184	20.3	-21.1
Loans	51,774	47,017	50,741	56,565	69,294	88,898	98,529	101,722	117,151	143,202	22.2	40.8
Public sector	25,056	23,571	21,420	15,954	10,036	6,413	6,249	1,694	1,622	1,625	0.1	-4.1
Private sector	26,074	22,816	28,213	39,031	55,632	78,587	88,426	96,790	112,123	137,308	22.5	41.9
Financial sector	644	630	1,107	1,580	3,626	3,898	3,854	3,238	3,406	4,270	25.4	31.9
Provisions over loans	-7,463	-5,225	-3,717	-2,482	-2,227	-2,365	-2,871	-3,653	-3,767	-3,926	4.2	7.5
Other netted credits due to financial intermediation	27,212	22,148	25,753	16,873	18,387	17,084	25,265	21,258	21,278	20,241	-4.9	-4.8
Corporate bonds and subordinated debt	1,514	1,394	829	675	618	430	699	734	821	757	-7.8	3.1
Unquoted trusts	6,205	3,571	2,362	2,444	2,982	3,456	3,869	4,198	4,348	4,500	3.5	7.2
Compensation receivable	15,971	13,812	14,657	5,575	760	377	357	16	15	0	-	-
Other	3,523	3,370	7,905	8,179	14,027	12,822	20,339	16,311	16,093	14,984	-6.9	-8.1
Leasing	553	387	592	1,356	2,126	3,149	3,451	2,569	2,610	3,519	34.8	37.0
Shares in other companies	3,123	2,791	1,892	2,416	4,042	3,762	4,538	4,067	4,258	4,934	15.9	21.3
Fixed assets and miscellaneous	5,198	4,902	4,678	4,575	4,677	4,685	4,926	5,096	5,290	5,808	9.8	14.0
Foreign branches	-109	-136	-53	-148	-139	-154	-178	-202	-213	-215	0.9	6.1
Other assets	7,549	7,816	7,137	6,178	5,682	6,277	8,505	6,946	6,623	7,646	15.4	10.1
Liabilities	**103,079**	**101,732**	**113,285**	**112,600**	**131,476**	**152,153**	**182,596**	**198,438**	**213,673**	**243,766**	**14.1**	**22.8**
Deposits	44,445	52,625	62,685	75,668	94,095	116,719	135,711	154,387	171,258	198,662	16.0	28.7
Public sector[2]	1,636	3,077	6,039	6,946	7,029	7,564	19,600	17,757	23,318	23,598	1.2	32.9
Private sector[2]	38,289	47,097	55,384	67,859	85,714	107,671	114,176	134,426	146,126	173,203	18.5	28.8
Current account	8,905	11,588	13,966	17,946	20,604	27,132	30,188	35,127	39,489	46,297	17.2	31.8
Savings account	6,309	10,547	14,842	18,362	23,165	30,169	32,778	40,999	43,654	53,085	21.6	29.5
Time deposit	11,083	18,710	22,729	27,736	38,043	45,770	46,990	54,058	57,290	67,568	17.9	25.0
CEDRO	9,016	2,409	798	3	1	0	0	0	0	0	-	-
Other netted liabilities due to financial intermediation	49,341	42,367	45,083	32,349	31,750	29,323	39,298	34,235	33,704	34,427	2.1	0.6
Interbanking obligations	836	726	1,070	1,488	3,383	1,979	1,160	1,668	1,845	1,903	3.1	14.1
BCRA lines	16,624	17,030	17,768	10,088	3,689	675	649	41	37	57	55.7	38.2
Outstanding bonds	9,073	6,674	7,922	6,548	6,413	6,686	5,672	4,626	3,750	2,802	-25.3	-39.4
Foreign lines of credit	15,434	9,998	5,444	2,696	2,249	1,833	2,261	1,262	1,182	1,716	45.2	36.0
Other	7,374	7,939	12,878	11,530	16,015	18,150	29,555	26,638	26,891	27,949	3.9	4.9
Subordinated debts	3,622	1,850	1,304	1,319	1,642	1,668	1,759	1,918	1,970	2,148	9.0	12.0
Other liabilities	5,671	4,890	4,213	3,264	3,989	4,443	5,828	7,897	6,741	8,528	26.5	8.0
Net worth	**15,827**	**14,900**	**14,780**	**17,080**	**20,938**	**23,356**	**26,292**	**31,111**	**31,409**	**36,259**	**15.4**	**16.5**
Memo												
Netted assets	117,928	115,091	121,889	123,271	143,807	166,231	192,074	216,100	231,852	267,364	15.3	23.7

(1) Includes margin accounts with the BCRA; (2) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 5)

1.- (Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; **3.-** (Loans to the private sector + Leases) / Total assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total non-performing loans - Provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-** (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-** Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; **10.-** (Capital compliance minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Private Banks (cont.)

Chart 7 | Profitability Structure

	Annual									Half-yearly			Change (in%)	
In millions of current pesos	2002[1]	2003	2004	2005	2006	2007	2008	2009	2010	II-09	I-10	II-10	II-10 / I-10	II-10 / II-09
Financial margin	10,628	2,575	3,415	5,253	7,778	8,960	12,964	19,724	21,837	10,361	9,584	12,254	28	18
Net interest income	-304	107	1,214	2,069	2,826	4,191	7,727	10,572	12,842	5,295	5,854	6,988	19	32
CER and CVS adjustments	1,476	1,082	900	1,215	858	662	651	185	244	101	108	136	27	36
Foreign exchange rate adjustments	6,189	-312	666	576	740	990	1,620	1,646	1,493	601	718	775	8	29
Gains on securities	3,464	1,892	959	1,259	3,154	2,888	1,637	7,343	7,464	4,744	2,947	4,517	53	-5
Other financial income	-197	-195	-322	134	199	229	1,329	-22	-205	-379	-42	-163	284	-57
Service income margin	2,782	2,341	2,774	3,350	4,459	5,881	7,632	9,198	11,345	4,876	5,291	6,054	14	24
Loan loss provisions	-6,923	-1,461	-1,036	-714	-737	-1,174	-1,863	-2,751	-2,253	-1,351	-1,051	-1,203	14	-11
Operating costs	-6,726	-5,310	-5,382	-6,303	-7,741	-9,735	-12,401	-14,807	-18,819	-7,710	-8,800	-10,019	14	30
Tax charges	-512	-366	-393	-509	-769	-1,105	-1,715	-2,380	-2,927	-1,249	-1,317	-1,610	22	29
Income tax	-337	-295	-202	-217	-365	-380	-1,168	-3,001	-2,733	-1,548	-1,161	-1,572	35	2
Adjustments to the valuation of government securities[2]	0	-665	-51	-201	-170	-100	-267	0	47	24	9	38	312	58
Amortization payments for court-ordered releases	0	-791	-1,147	-1,168	-1,182	-1,466	-688	-367	-441	-181	-241	-200	-17	10
Other	-4,164	1,178	846	1,156	1,641	1,576	916	398	1,382	300	575	807	40	169
Monetary results	-10,531	-20	0	0	0	0	0	0	0	0	0	0	0	0
Total results	**-15,784**	**-2,813**	**-1,176**	**648**	**2,915**	**2,457**	**3,412**	**6,014**	**7,438**	**3,522**	**2,889**	**4,549**	**57**	**29**
Adjusted results[3]	-	-1,357	252	2,016	4,267	4,023	4,367	6,381	7,832	3,680	3,121	4,711	51	28
Annualized indicators - As % of netted assets													*change in p.p.*	
Financial margin	7.6	2.3	2.9	4.3	5.9	5.8	7.3	9.8	9.3	10.2	8.8	9.9	1.1	-0.4
Net interest income	-0.2	0.1	1.0	1.7	2.1	2.7	4.4	5.3	5.5	5.2	5.4	5.6	0.3	0.4
CER and CVS adjustments	1.1	0.9	0.8	1.0	0.6	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Foreign exchange rate adjustments	4.4	-0.3	0.6	0.5	0.6	0.6	0.9	0.8	0.6	0.6	0.7	0.6	0.0	0.0
Gains on securities	2.5	1.7	0.8	1.0	2.4	1.9	0.9	3.7	3.2	4.7	2.7	3.6	0.9	-1.0
Other financial income	-0.1	-0.2	-0.3	0.1	0.2	0.1	0.8	0.0	-0.1	-0.4	0.0	-0.1	-0.1	0.2
Service income margin	2.0	2.0	2.4	2.7	3.4	3.8	4.3	4.6	4.8	4.8	4.8	4.9	0.0	0.1
Loan loss provisions	-5.0	-1.3	-0.9	-0.6	-0.6	-0.8	-1.1	-1.4	-1.0	-1.3	-1.0	-1.0	0.0	0.4
Operating costs	-4.8	-4.6	-4.6	-5.1	-5.9	-6.3	-7.0	-7.4	-8.0	-7.6	-8.1	-8.1	0.0	-0.5
Tax charges	-0.4	-0.3	-0.3	-0.4	-0.6	-0.7	-1.0	-1.2	-1.2	-1.2	-1.2	-1.3	-0.1	-0.1
Income tax	-0.2	-0.3	-0.2	-0.2	-0.3	-0.2	-0.7	-1.5	-1.2	-1.5	-1.1	-1.3	-0.2	0.3
Adjustments to the valuation of government securities[2]	0.0	-0.6	0.0	-0.2	-0.1	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization payments for court-ordered releases	0.0	-0.7	-1.0	-1.0	-0.9	-0.9	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	0.1	0.0
Other	-3.0	1.0	0.7	0.9	1.2	1.0	0.5	0.2	0.6	0.3	0.5	0.7	0.1	0.4
Monetary results	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	**-11.3**	**-2.5**	**-1.0**	**0.5**	**2.2**	**1.6**	**1.9**	**3.0**	**3.2**	**3.5**	**2.6**	**3.7**	**1.0**	**0.2**
ROA adjusted [3]	-	-1.2	0.2	1.6	3.2	2.6	2.5	3.2	3.3	3.6	2.9	3.8	0.9	0.2
ROE	*-79.0*	*-19.1*	*-8.1*	*4.1*	*15.3*	*10.9*	*15.2*	*22.9*	*24.5*	*26.1*	*19.6*	*29.2*	*9.6*	*3.1*

(1) Information in currency of december 2002. (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains on securities" heading.

(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Source: BCRA

Chart 8| Porfolio Quality

As percentage	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec-10
Non-performing loans (overall)	19.8	15.7	8.9	4.4	2.9	2.2	2.5	3.1	1.9
Non-performing loans to the non-financial private sector	**37.4**	**30.4**	**15.3**	**6.3**	**3.6**	**2.5**	**2.8**	**3.3**	**2.0**
Provisions / Non-performing loans	73.4	79.0	97.0	114.3	129.3	141.3	134.1	128.9	162.1
(Total non-perfoming - Provisions) / Overall financing	5.3	3.3	0.4	-0.6	-0.9	-0.9	-0.9	-0.9	-1.2
(Total non-perfoming - Provisions) / Net worth	18.6	11.2	1.3	-2.2	-3.0	-3.6	-3.4	-3.1	-4.9

(*) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA

Abbreviations and Accronyms

AEIRR: Annual Effective Internal Rate of Return

AFJP: *Administradora de Fondos de Jubilaciones y Pensiones.*

ANSES: *Administración Nacional de Seguridad Social.* National Social Security Administration.

APE: *Acuerdos Preventivos Extra-judiciales.* Preliminary out-of-court agreements.

APR: Annual Percentage Rate.

b.p.: basis points.

BADLAR: Interest rate for time deposits over one million pesos between 30 and 35 days for the average of financial entities.

BCBA: *Bolsa de Comercio de Buenos Aires.* Buenos Aires Stock Exchange.

BCRA: *Banco Central de la República Argentina.* Central Bank of Argentina.

BIS: Bank of International Settlements.

BM: Monetary Base. Defined as money in circulation plus current account deposits in pesos by financial entities in the BCRA.

Boden: *Bonos del Estado Nacional.*Federal Bonds.

Bogar: *Bonos Garantizados.* Guaranteed Bonds.

BoJ: Bank of Japan.

Bonar: *Bonos de la Nación Argentina.* Argentine National Bonds.

BOVESPA: São Paulo Stock Exchange.

CAMEL: Capital, Assets, Management, Earnings and Liquidity.

Cdad. de Bs. As.: *Ciudad de Buenos Aires. Buenos Aires City.*

CDS: Credit Default Swaps

CEC: *Cámaras Electrónicas de Compensación.* Electronic Clearing Houses.

CEDEM: *Centro de Estudios para el Desarrollo Económico Metropolitano.* Study Center for Metropolitan Economic Development.

CEDRO: *Certificado de Depósito Reprogramado.* Rescheduled Deposit Certificate.

CER: *Coeficiente de Estabilización de Referencia.* Reference Stabilization Coefficient.

CIMPRA: *Comisión Interbancaria para Medios de Pago de la República Argentina.*

CNV: *Comisión Nacional de Valores.* National Securities Commission

CPI: Consumer Price Index.

CPI Others: *CPI excluidos los bienes y servicios con alta estacionalidad, volatilidad o los sujetos a regulación o alto componente impositivo*. CPI excluded goods and services with high seasonal and irregular components, regulated prices or high tax components

Credit to the public sector: includes the position in government securities (excluding LEBAC and NOBAC), loans to the public sector and compensation receivable.

CVS: *Coeficiente de Variación Salarial.* Wage variation coefficient.

DGF: Deposit Guarantee Fund.

Disc: Discount bond.

EB: Executive Branch.

ECB: European Central Bank.

EMBI: Emerging Markets Bond Index.

EMI: *Estimador Mensual Industrial.* Monthly Industrial Indicator

EPH: *Encuesta Permanente de Hogares.* Permanent Household Survey.

Fed: Federal Reserve of US.

FOMC: Federal Open Market Committee (US).

FS: Financial Stability.

FSR: Financial Stability Report.

FT: Financial trust.

FUCO: *Fondo Unificado de Cuentas Corrientes Oficiales.* Unified Official Current Account Fund.

FV: Face value.

GDP: Gross Domestic Product.

HHI: Herfindahl-Hirschman Index.

IADB: Inter-American Development Bank.

IAMC: *Instituto Argentino de Mercado de Capitales.*

ICs: Insurance Companies.

IDCCB: *Impuesto a los Débitos y Créditos en Cuentas Bancarias*. Tax on Current Account Debits and Credits.

IFI: International Financial Institutions: IMF, IADB and WB.

IFS: International Financial Statistics.

IMF: International Monetary Fund.

INDEC: *Instituto Nacional de Estadísticas y Censos*. National Institute of Statistics and Censuses.

IndeR: *Instituto Nacional de Reaseguros.* National Institute of Reinsurance.

IPMP: *Índice de Precios de las Materias Primas*. Central Bank Commodities Price Index.

IPSA: *Índice de Precios Selectivo de Acciones*. Chile Stock Exchange Index.

IRR: Internal Rate of Return.

ISAC: *Índice Sintético de Actividad de la Construcción.* Construction Activity Index.

ISDA: International Swaps and Derivates Association.

ISSP: *Índice Sintético de Servicios Públicos.* Synthetic Indicator of Public Services.

Lebac: *Letras del Banco Central de la República Argentina.* BCRA bills.

LIBOR: London Interbank Offered Rate.

m.a.: Moving average.

M2: Currency held by public + quasi-monies + $ saving and current accounts.

M3: Currency held by public + quasi-monies + $ total deposits.

MAE: *Mercado Abierto Electrónico*. Electronic over-the-counter market.

MAS: Mutual Assurance Societes.

MC: Minimum cash.

MEC: Electronic Open Market.

MECON: Ministerio de Economía y Producción. Ministry of Economy and Production.

MEP: *Medio Electrónico de Pagos*. Electronic Means of Payment.

MERCOSUR*: Mercado Común del Sur***.** Southern Common Market.

MERVAL: *Mercado de Valores de Buenos Aires.* Executes, settles and guarantees security trades at the BCBA.

MEXBOL: *Índice de la Bolsa Mexicana de Valores.* México Stock Exchange Index.

MF: Mutual Funds.

MIPyME: *Micro, Pequeñas y Medianas Empresas.* Micro, Small and Medium Sized Enterprises.

MOA: *Manufacturas de Origen Agropecuario.* Manufactures of Agricultural Origin.

MOI: *Manufacturas de Origen Industrial.* Manufactures of Industrial Origin.

MP: Monetary Program.

MR: Market rate.

MRO: *Main refinancing operations.*

MSCI: Morgan Stanley Capital International.

NA: Netted assets.

NACHA: National Automated Clearinghouse Association.

NBFE: Non-Bank Financial Entities (under Central Bank scope)

NBFI : Non-Bank Financial Intermediaries (out of Central Bank scope)

NDP: National public debt.

NFPS: Non-financial national public sector's.

Nobac: *Notas del Banco Central.* BCRA notes.

NPS: National Payments System.

NW: Net worth.

O/N: Overnight rate.

OCT : *Operaciones Compensadas a Término***.** Futures Settlement Round.

OECD: Organization for Economic Co-operation and Development.

ON: *Obligaciones Negociables*. Corporate bonds.

ONCCA: *Oficina Nacional de Control Comercial Agropecuario*

OS: *Obligaciones Subordinadas*. Subordinated debt.

P / BV : Price over book value.

p.p.: Percentage point.

Par: Par bond.

PGN: *Préstamos Garantizados Nacionales.* National Guaranteed Loans.

PF: Pension Funds.

PPP: Purchasing power parity.

PPS: Provincial public sector.

PS: Price Stability.

PV: Par Value.

q.o.q: quarter-on-quarter % change.

REM: BCRA Market expectation survey.

ROA: Return on Assets.

ROE: Return on Equity.

Rofex: Rosario Futures Exchange.

RPC: *Responsabilidad Patrimonial Computable.* Adjusted stockholder's equity, calculated towards meeting capital regulations.

RTGS: Real-Time Gross Settlement.

s.a.: Seasonally adjusted.

SAFJP: *Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones*. Superintendency of Retirement and Pension Funds Administrations.

SAGPyA: *Secretaría de Agricultura, Ganadería, Pesca y Alimentos.* Secretariat for agriculture, livestock, fisheries, and food.

SEDESA: *Seguro de Depósitos Sociedad Anónima.*

SEFyC: Superintendence of Financial and Exchange Institutions.

SIOPEL: *Sistema de Operaciones Electrónicas.* Trading software used on the over-the-counter market.

SME: Small and Medium Enterprises.

SSN: *Superintendencia de Seguros de la Nación.*

TA: *Adelantos transitorios del BCRA al Tesoro*. Temporary advances.

TD: Time Deposits.

TFC: Total financial cost.

TGN: *Tesorería General de la Nación.* National Treasury

UFC: Uniform Federal Clearing.

UIC: Use of Installed Capacity.

UK: United Kindom.

US$: United States dollar.

US: United States of America.

UTDT: Universidad Torcuato Di Tella.

VaR: Value at Risk.

VAT: Value added Tax.

WB: World Bank.

WPI: Wholesale Price Index.

Index of Charts and Tables

Index of Charts

Index of Tables